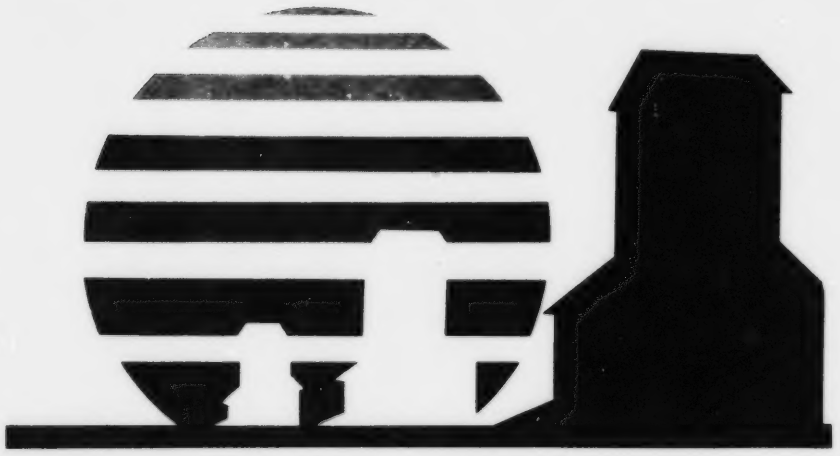
Manitoba
Agriculture

AGRICULTURAL
OUTLOOK
87



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DATA SOURCES : Statistics Canada, Agriculture Canada, Manitoba Agriculture, United States Department of Agriculture and Manitoba Bureau of Statistics.

CANADA AND MANITOBA ECONOMIC OUTLOOK, 1987

HIGHLIGHTS

I. IMPACT ON MANITOBA AGRICULTURAL ACTIVITY ON THE MANITOBA AND CANADIAN ECONOMIES IN 1985

-In Manitoba, agricultural activity accounted for $2.7 billion of the province's GDP. This was 16.6 percent of the total, or one dollar in six of production in Manitoba's economy.

-Agricultural activity in Manitoba, directly and indirectly, generated 84,300 jobs. This represents 17.6 percent of the total employed labour force, or one job in six in the Manitoba economy.

-Manitoba agricultural exports out of Canada were $739 million, or just over a third of Manitoba's total merchandise exports. Agriculture posted a positive trade balance of $627 million in 1985.

-Manitoba agricultural activity contributed over $4.2 billion to Canada's Gross Domestic Product (GDP) and accounted for over 114,000 jobs. Of the jobs created, only one half were directly in agriculture, the other half were in industries other than agriculture.

II. MANITOBA AND CANADA ECONOMIC OUTLOOK

-The Manitoba economy performed above the national average in 1986, achieving the second lowest unemployment rate at 7.7 percent in the country.

-In 1987, driven by increased investment and construction activity, Manitoba is forecast to lead the nation in economic growth. Manitoba real GDP is expected to rise about 3.5 percent, compared to 2.5 percent for Canada.

-Manitoba's unemployment rate, in 1987, is forecast to range between 5.8 and 7.0 percent, the lowest in Canada, and substantially below the 9.3 percent forecast for Canada.

-Oil prices, if OPEC is able to regain market control, should increase about 2.6 cents per litre in 1987, adding at least $7.2 million to farm transportation fuel costs.

-Interest rates should fall about 0.6 to 0.7 of a percent in 1987 before gradually increasing in 1988.

CANADA AND MANITOBA ECONOMIC OUTLOOK, 1987

This presentation is divided into two main parts. The first examines some of the economic impacts of Manitoba agriculture on the Manitoba and Canadian economies and the second reviews the economic outlook for 1987.

SECTION I: ECONOMIC IMPACT OF MANITOBA AGRICULTURE

The Manitoba Bureau of Statistics is the central statistics agency for the government of Manitoba. The objective of the Bureau is to satisfy the needs of the government for information on the economic and social characteristics of the province and its regions. To help meet this objective, the Bureau has developed a set of economic accounts for the province and has worked extensively with input/output and other economic models. These models help to measure the relative contribution to the economy of individual industries and help trace how industries are interrelated with others in Manitoba and Canada.

What is done at the Bureau is not really any different than what an individual businessperson does when they maintain a set of books to tell them the economic performance of their business. The main difference is that the Bureau of Statistics maintains a set of books that attempt to measure the economic performance of the whole economy.

It is important to note that the statistics presented are derived from economic models which are subject to limitations and as such the results in this presentation should be treated as estimates, not absolutes.

In a relatively short presentation such as this it is not possible to adequately describe all the economic impacts of agriculture. This presentation will briefly highlight some of the most important by referring to three measures of economic impact: Gross Domestic Product, Employment and International Trade.

(1) GROSS DOMESTIC PRODUCT IMPACTS:

The most widely used measure of economic performance is gross domestic product or GDP. GDP is the value of all goods and services produced in the economy in a given time period. To find an individual industries direct contribution to GDP, the value of all inputs purchased from other industries are subtracted from the value of its output. Agriculture's GDP or value added is the value of sales (adjusted for inventory) of all crops, livestock and other farm products less the value of purchased inputs from other industries such as fuel, fertilizer and other expenses. This means that agriculture's direct contribution to GDP includes: wages paid in agriculture; the net income or profit of farms; depreciation allowances for capital; and interest paid by farmers.

(A) Agriculture's direct contribution to Manitoba's GDP

Agriculture directly contributes to the Manitoba economy in three ways. The first is the value added created through the production of agricultural commodities. The second is through the investment undertaken by the agricultural industry. The third is the contribution of manufacturing activity which is dependent on Manitoba produced agricultural products.

As shown in Table 1, agricultural production directly contributed $1.3 billion to Manitoba's GDP (at factor cost). This represented 7.9 percent of the total GDP of $16.0 billion. Agriculture was the second largest of the goods producing industries (the goods producing industries include agriculture, fishing, forestry, mining, manufacturing, construction, and utilities) and the sixth largest overall. The only goods producing industry which was larger was manufacturing which accounted for 11.3 percent of total GDP.

In 1985, there was $380 million of investment in new construction and machinery and equipment in agriculture in Manitoba. This investment led to a direct contribution to Manitoba's GDP of $58 million.

In addition, the Food and Beverage manufacturing industries (the directly related manufacturing activity) had a value of shipments of over $1.6 billion in 1985 and contributed $349 million to Manitoba's GDP.

In total, if all three direct activities are added, agriculture contributed $1.7 billion to Manitoba's GDP in 1985 or 10.5 percent of the total. Therefore, agriculture directly generated one of every ten dollars of production in Manitoba in 1985.

(B) Agriculture's indirect contribution to Manitoba's GDP

In addition to the direct contribution to the economy, there are also what are referred to as indirect and induced effects which occur as a result of spinoffs from economic production in any single industry. These spinoffs affect not only other industries in Manitoba but other industries in the rest of Canada as well. They occur because inputs such as fuel, fertilizer and agricultural machinery are produced in other industries in Manitoba or in other parts of Canada. In addition, the transportation, storage and handling of grain and livestock lead to economic activity in other sectors of the Manitoba and Canadian economies. As well the wages and salaries paid by these industries to their employees are spent on the purchase of goods and services generating further economic production.

The indirect effects of agricultural production generated an additional contribution of $693 million in 1985. This brought agricultural productions total contribution to Manitoba's GDP to just under $2.0 billion or 12.3 percent of the total.

The indirect effects of agricultural investment added a further $52 million to its direct contribution of $58 million to bring it to a total of $109 million. The indirect effects of the related manufacturing activity added a further $235 million to its direct contribution of $349 million.

(C) Agriculture's total contribution to Manitoba's GDP

In total, the direct and indirect effects of the three areas contributed $2.7 billion dollars to Manitoba's GDP in 1985, which is 16.6 percent of the total. Agriculture, directly or indirectly, accounted for one dollar in six of production in Manitoba's economy in 1985.

(D) Manitoba agriculture's contribution to Canada's GDP

As shown in Table 2, agricultural activities in Manitoba lead, through economic spinoffs, to an increase in GDP in the rest of Canada of $1.6 billion. In total, Manitoba agricultural activities contributed over $4.2 billion in 1985 to Canada's GDP.

Of this total $2.7 billion or 62.5 percent took place in Manitoba and the remainder, $1.6 billion or 37.5 percent occurred in other parts of Canada. In other words, for every dollar Manitoba agricultural activity contributed to GDP in Manitoba an additional 60 cents is contributed to GDP in other parts of Canada. The province benefiting the most was Ontario where agricultural activity in Manitoba added just over $610 million to its GDP.

Tables 3 and 3A show that the effects of agricultural production in Manitoba were distributed across a wide range of industries in Canada. Of the total impact of $3.1 billion, only $1.3 billion or 43.5 percent was in agriculture. The remaining $1.7 billion or 56.5 percent was generated in industries other than agriculture. The industries experiencing the largest effects were finance and services and manufacturing industries which grew by $609 million (19.7 percent of the total) and $373 million (12.1 percent of the total) respectively.

(2) EMPLOYMENT IMPACTS:

Another very significant economic measure, and arguably one of the most important, is job creation. As in the case of GDP, agriculture in Manitoba contributes to job creation both directly and indirectly through production, investment and related manufacturing activity.

(A) Agriculture's direct contribution to employment in Manitoba

As shown in Table 4, there were 47,000 people directly employed in agriculture out of a total employed labour force of 480,000 in Manitoba in 1985. This means that 9.8 percent of the employed labour force was directly in agriculture or almost one job in ten in the Manitoba economy. There were also 1,250 jobs directly generated as a result of investment in new construction and machinery and equipment by Manitoba farmers. In addition there were 10,200 jobs in the food and beverage manufacturing industries.

In total, there were 58,450 persons employed directly as a result of agricultural activities in Manitoba in 1985. This represented 12.2 percent of the total employed labour force or almost one job in eight.

(B) Agriculture's indirect contribution to employment in Manitoba

In 1985, the indirect effects of agricultural production generated 18,560 jobs which increased its total contribution to employment to 65,560 or 13.7 percent of the total. The investment undertaken by the farm sector in Manitoba indirectly generated a further 1,100 jobs and the indirect effects of the food and beverage manufacturing industries created another 6,190 jobs.

In total, there were 25,850 jobs created in Manitoba through the indirect effects of agricultural activities.

(C) Agriculture's total contribution to employment in Manitoba

In total, the direct and indirect effects of agricultural activity created 84,300 jobs in the Manitoba economy in 1985. This represents 17.6 percent of the total employed labour force or over one job in six in the Manitoba economy.

(D) Manitoba agriculture's contribution to employment in Canada

As referred to earlier, a significant feature of agriculture is that it has many links to other industries in Manitoba and in other parts of Canada. The inputs purchased by the agriculture industry not only add to GDP in other parts of Canada but they create employment as well.

As shown in Table 5, 29,940 jobs in other parts of Canada were dependent on agriculture in Manitoba in 1985. If these are added to the employment in Manitoba then, in total, 114,240 jobs in Canada were created as a result of Manitoba agricultural activities. This means that for every four jobs in Manitoba dependent on agriculture there is one job dependent in the rest of Canada.

As in the case of GDP, the jobs dependent on Manitoba agriculture are distributed across a wide range of industries in Canada. Tables 6 and 6A show that of the 90,370 jobs dependent on agricultural production in Manitoba only 49,890 or 55.2 percent were directly in the agriculture industry. The remainder were in other industries and, in fact, for every job directly in agriculture, there was one job in other industries.

(3) EXTERNAL TRADE:

As shown in table 7, the total value of Manitoba exports out of Canada was almost $2.2 billion in 1985. Agriculture contributed $739 million dollars or just over a third of the total, while accounting for $112 million or under four percent of Manitoba's imports. This resulted in agriculture posted a positive trade balance of $627 million. In contrast, Manitoba's balance of trade in manufactured goods accumulated a deficit of $1.5 billion dollars.

Another point which, while obvious, is not often emphasized is that grain exports have been one of the largest single sources of foreign exchange earnings for Canada. This has helped to keep Canada's merchandise trade balance in a positive position and hence supporting the foreign exchange value of the Canadian dollar.

SECTION II: ECONOMIC OUTLOOK FOR 1987, MANITOBA AND CANADA

This section will briefly review the economic performance of the Manitoba and Canadian economies in 1986 and discuss the outlook for 1987. It will also highlight the outlook for three specific areas: Oil Prices, Interest Rates, and Trade Negotiations.

(1) ECONOMIC PERFORMANCE IN 1986:

The Manitoba economy performed above the national average in 1986. Table 8 provides a summary of some of the key economic indicators.

The Manitoba Bureau of Statistics estimates that Manitoba's GDP at market prices (nominal GDP) grew by 6.3 percent. As shown in Table 9, the Royal Bank and the Bank of Commerce estimated that Manitoba's nominal GDP rose by 6.3 and 6.2 percent, respectively.

Forecasters estimated that Manitoba's real GDP (after discounting for the effects of inflation and hence reflecting the volume as opposed to the current market value of output) was in the 3.6 to 3.9 percent range. This compares with the estimates for Canada which are in the 3.0 to 3.2 range.

One of the major sources of growth in Manitoba was investment and construction. Housing starts in urban centres increased 29.1 percent and the value of building permits grew by 23.1 percent. Relatively low and stable interest rates, helped by incentive packages offered by builders, was the primary reason for the growth in the residential housing market. Total capital investment was up 10.3 percent led, in part, by the Limestone hydro-electric and the urban Winnipeg North Portage redevelopment projects.

Manitoba's unemployment rate was 7.7 percent in 1986, the second lowest in the nation, and substantially under the national average of 9.6 percent.

Areas of relative weakness in 1986 were in agriculture, the result of depressed grain prices and lower production, and manufacturing. In manufacturing the value of shipments increased only 2.2 percent (based on the first ten months of data) over 1985 levels. The weakness in the manufacturing sector, primarily the result of the downsizing and layoffs in many companies, is forecast to continue into 1987. In 1988, according to the Conference Board, growth in manufacturing will accelerate, led by an expansion of the aerospace industry.

MBS estimates that Manitoba Personal Income reached $17.0 billion in 1986, a growth of 5.9 percent. Taxes are estimated to

have increased by 16.3 percent, as result of the tax measure in the May 1985 and February 1986 Federal Budgets, which results in Personal Disposable Income growing at 4.0 percent. The relatively low growth in Personal Disposable Income is reflected in the value of retail trade which rose (based on the first ten months of data) only 5.3 percent, compared to the 15.2 percent in 1985.

(2) ECONOMIC OUTLOOK FOR 1987:

Manitoba is forecast to lead the nation in economic growth in 1987 according to most of the major economic forecasters.

The Conference Board of Canada predicts that Manitoba real GDP will increase by 3.4 percent compared to a growth of 2.3 percent for Canada. Manitoba's unemployment rate, at 5.8 percent, is expected to be the lowest in Canada and substantially under the 9.3 percent Canadian average.

The Royal Bank of Canada also is bullish about the prospects for Manitoba's economy in 1987. They predict that Manitoba will have the highest growth in real GDP and the second lowest unemployment rate in the country.

The general consensus among forecasters is that the Manitoba economy is expanding at a steady pace driven primarily by increased investment and construction activity.

A feature of the Manitoba economy which makes it less subject to fluctuations in growth is that it is reasonably well diversified and not as subject to the booms or busts characteristic of many other provincial economies. For example, in spite of relative weakness in the agricultural and manufacturing sectors in 1986, Manitoba was still able to lead the nation in economic activity.

(3) OUTLOOK FOR OIL PRICES, INTEREST RATES, AND TRADE NEGOTIATIONS:

(1) Oil prices in 1987

The price of energy, particularly that of oil, exerts a powerful influence on Manitoba farm incomes. For the estimated 28,700 farms in Manitoba the energy costs for each, on average, was $6,000 in 1986. In addition the cost of indirect energy, such as that needed to make fertilizer and deliver feed, added another $6,200 to the energy bill to bring the total average cost per farm to $12,200 in 1986.

Under terms of the Western Accord Canadian domestic oil pricing was deregulated as of June 1 1985. This agreement replaced the previous multi-level government administered price with a one price system based on world market forces. In fact, the price of crude in Canada in now based on foreign crude oil prices at Chicago.

At the same time as deregulation was being put into effect the Iran-Iraq war and Saudi Arabia's changing production/pricing policies brought enormous disintegrative pressures to bear on OPEC (the organization of petroleum exporting countries) which in the past was able to control prices. The result has been that world prices have been very unstable over the past two years. For example, in Manitoba the price crude oil was $36.00 per barrel in December of 1985. This was followed by a fall in the price to $15.00 by the end of March in 1986, a 60% decline in just 12 weeks. Prices continued to fluctuate until they rose to, and stabilized at, about $21.00 per barrel.

The significance of these events for oil prices in 1987 is that OPEC has been able to reach and (to date) maintain production and pricing agreement. On February 1, 1987 OPEC will increase prices from about $15.00 U.S. per barrel to $18.00 U.S. ($21.00 to $25.00 Canadian). This translates into about a 2.6 cents per litre increase at the pump which, because of the current 60 day lag between changes in the price of crude oil and retail prices, should be in effect about April 1, 1987.

The total estimated effect of a 2.6 cents/litre increase will be to add about $250.00 annually directly to the average farm transportation fuel bill, a total of $7.2 million for all farms in Manitoba. As well the cost of indirect energy will rise adding to the price of farm inputs such as fertilizer and feed.

There is still a possibility that the pricing agreement reached by OPEC may be undermined and the price increase will not come about as scheduled. If OPEC is able to reestablish control, and the Non-OPEC oil producing nations follow, energy costs could start to increase over the next few years and with it the rate of inflation and subsequent interest rates hikes.

(2) Interest rates

The most recent forecasts for the United States economy are for moderate economic growth in 1987 which will not be strong enough to stop the downward trend in U.S. interest rates. Therefore, that there should no pressure on Canadian interest rates from the United States.

Table 9 shows that the forecasters reviewed expect that interest rates in Canada will fall about 0.6 to 0.7 of a percent (60 to 70 basis points) in 1987. Most analysts expect interest rates will not increase until 1988 when it is forecast that United States rates will rise in response to accelerated economic growth in that country's economy.

(3) Trade negotiations

There are currently two sets of trade negotiations taking place. The first is the GATT (General Agreement on Tariffs and Trade) and the second is the bilateral negotiations with the United States.

The GATT negotiations will not be completed for a least two years and hence should have no effect on the current trade rules in 1987 and 1988.

The bilateral negotiations with the United States are proceeding and an initial agreement is scheduled to be completed by the end of September in 1987. The agreement will be subject to review over a 90 day period and sent to the U.S. President, for approval, on January 2, 1988. From there it will to the U.S. Congress for a further review of 60 days. If both sides approve, a final agreement could be reached by March of 1988.

It is difficult to determine, at this stage of the negotiations, whether there will be any substantial effects on the various government support programs for agriculture on either side of border. A major debate will be on what constitutes a subsidy. It should be noted though, that in all likelihood, there will be a phase in period of at least two to ten years for any proposed major changes. Therefore, in the short term, there should be no changes to current agricultural trade policies.

Another issue which is under discussion in the trade negotiations is that of technical standards on drugs and chemicals which may be used by the agriculture industry. This is an attempt to standardize what is, and is not, acceptable in both Canada and the United States to ensure that trade, as in the past, will not

be hindered by different technical standards. This is an area where possible agreements could be reached in time for implementation in the near future.

TABLE 1
MANITOBA GROSS DOMESTIC PRODUCT DEPENDENT
ON AGRICULTURAL ACTIVITY IN 1985
(MILLIONS OF DOLLARS)

	DIRECT	PERCENT OF GDP	INDIRECT	PERCENT OF GDP	TOTAL	PERCENT OF GDP
PRODUCTION	1268	7.9	693	4.3	1961	12.3
INVESTMENT	58	0.4	52	0.3	109	0.7
RELATED MANUFACTURING	349	2.2	235	1.5	584	3.7
TOTAL	1675	10.5	980	6.1	2655	16.6

SOURCE: MANITOBA BUREAU OF STATISTICS

TABLE 2
CANADIAN GROSS DOMESTIC PRODUCT DEPENDENT
ON MANITOBA AGRICULTURAL ACTIVITY IN 1985*
(MILLIONS OF DOLLARS)

	GDP	PERCENT DISTRIBUTION
ATLANTIC	34	0.8
QUEBEC	260	6.1
ONTARIO	610	14.4
MANITOBA	2655	62.5
WEST	690	16.2
CANADA	4249	100.0

SOURCE: MANITOBA BUREAU OF STATISTICS
* Includes both direct and indirect impacts of production, investment and related manufacturing activity

TABLE 3
TOTAL GROSS DOMESTIC PRODUCT IN CANADA BY INDUSTRY IN 1985
DEPENDENT ON AGRICULTURAL PRODUCTION IN MANITOBA

	ATLANTIC	QUEBEC	ONTARIO	MANITOBA	WESTERN	CANADA
			(MILLIONS OF DOLLARS)			
AGRICULTURE	0	4	18	1268	51	1342
OTHER PRIMARY	2	2	3	4	100	110
MANUFACTURING	5	67	143	89	69	373
CONSTRUCTION	0	2	7	29	11	48
TRANSPORTATION	4	26	57	159	66	311
TRADE	3	24	58	159	48	293
FINANCE & SERVICES	8	57	128	254	162	609
TOTAL	23	182	414	1961	506	3086

SOURCE: MANITOBA BUREAU OF STATISTICS

TABLE 3A
TOTAL GROSS DOMESTIC PRODUCT IN CANADA BY INDUSTRY IN 1985
DEPENDENT ON AGRICULTURAL PRODUCTION IN MANITOBA

	ATLANTIC	QUEBEC	ONTARIO	MANITOBA	WESTERN	CANADA
			(PERCENT OF TOTAL)			
AGRICULTURE	.0	0.1	0.6	41.1	1.7	43.5
OTHER PRIMARY	0.1	0.1	0.1	0.1	3.2	3.6
MANUFACTURING	0.2	2.2	4.6	2.9	2.2	12.1
CONSTRUCTION	.0	0.1	0.2	0.9	0.3	1.6
TRANSPORTATION	0.1	0.8	1.8	5.2	2.1	10.1
TRADE	0.1	0.8	1.9	5.2	1.5	9.5
FINANCE & SERVICES	0.2	1.8	4.2	8.2	5.3	19.7
TOTAL	0.7	5.9	13.4	63.6	16.4	100.0

SOURCE: MANITOBA BUREAU OF STATISTICS

TABLE 4
MANITOBA EMPLOYMENT DEPENDENT ON AGRICULTURAL ACTIVITY IN 1985
(NUMBER OF JOBS)

	DIRECT	PERCENT OF EMP*	INDIRECT	PERCENT OF EMP	TOTAL	PERCENT OF EMP
PRODUCTION	47000	9.8	18560	3.9	65560	13.7
INVESTMENT	1250	0.3	1100	0.2	2350	0.5
RELATED MANUFACTURING	10200	2.1	6190	1.3	16390	3.4
TOTAL	58450	12.2	25850	5.4	84300	17.6

SOURCE: MANITOBA BUREAU OF STATISTICS
* Total employed Manitoba labour force

TABLE 5
EMPLOYMENT IN CANADA DEPENDENT
ON MANITOBA AGRICULTURAL ACTIVITY IN 1985*
(NUMBER OF JOBS)

	EMPLOYMENT	PERCENT DISTRIBUTION
ATLANTIC	650	0.6
QUEBEC	5820	5.1
ONTARIO	13440	11.8
MANITOBA	84300	73.8
WEST	10030	8.8
CANADA	114240	100.0

SOURCE: MANITOBA BUREAU OF STATISTICS
* Includes the direct and indirect effects of production, investment and related manufacturing activity

TABLE 6
TOTAL CANADIAN EMPLOYMENT BY INDUSTRY IN 1985 DEPENDENT
ON AGRICULTURAL PRODUCTION IN MANITOBA*

	ATLANTIC	QUEBEC	ONTARIO	MANITOBA	WESTERN	CANADA
			(NUMBER OF JOBS)			
AGRICULTURE	0	150	910	47000	1830	49890
OTHER PRIMARY	0	0	0	0	300	300
MANUFACTURING	460	1980	3190	1830	1220	8680
CONSTRUCTION	0	0	150	910	150	1210
TRANSPORTATION	0	460	1220	2590	1070	5340
TRADE	0	910	2130	7910	1830	12780
FINANCE & SERVICES	0	1220	3040	5320	2590	12170
TOTAL	460	4720	10640	65560	8990	90370

SOURCE: MANITOBA BUREAU OF STATISTICS
* Includes both direct and indirect effects

TABLE 6A
TOTAL CANADIAN EMPLOYMENT BY INDUSTRY IN 1985 DEPENDENT
ON AGRICULTURAL PRODUCTION IN MANITOBA*

	ATLANTIC	QUEBEC	ONTARIO	MANITOBA	WESTERN	CANADA
			(PERCENT OF TOTAL)			
AGRICULTURE	0.0	0.2	1.0	52.0	2.0	55.2
OTHER PRIMARY	0.0	0.0	0.0	0.0	0.3	0.3
MANUFACTURING	0.5	2.2	3.5	2.0	1.3	9.6
CONSTRUCTION	0.0	0.0	0.2	1.0	0.2	1.3
TRANSPORTATION	0.0	0.5	1.3	2.9	1.2	5.9
TRADE	0.0	1.0	2.4	8.8	2.0	14.1
FINANCE & SERVICES	0.0	1.3	3.4	5.9	2.9	13.5
TOTAL	0.5	5.2	11.8	72.6	9.9	100.0

SOURCE: MANITOBA BUREAU OF STATISTICS
* Includes both direct and indirect effects

TABLE 7
MANITOBA MERCHANDISE TRADE WITH THE REST
OF THE WORLD IN 1985

	EXPORTS	IMPORTS	BALANCE OF TRADE
		(MILLIONS OF DOLLARS)	
AGRICULTURE	739.2	111.9	627.3
FORESTRY	0.3	0.3	0.1
FISHING	12.4	35.8	-23.4
MINING	91.7	4.5	87.2
MANUFACTURING	1218.6	2742.8	-1524.2
ELECTRIC POWER	99.3	0.0	99.3
OTHER	30.2	67.9	-37.7
TOTAL	2191.7	2963.1	-771.4

SOURCE: MANITOBA BUREAU OF STATISTICS

TABLE 8: SUMMARY OF ECONOMIC INDICATORS, MANITOBA

YEAR/ MONTH	POPULATION (THOUSANDS)	EMPLOYED LABOUR FORCE (THOUS.)	UNEMPL. RATE (%)	AVG WKLY EARNINGS INDUSTR. AGGREGATE ($)	CPI WPG ALL ITEMS (1981=100)	TOTAL CAPITAL INVESTMENT ($MILLION)	GROSS DOMESTIC PRODUCT MARKET PRICES (2)	GROSS DOMESTIC PRODUCT FACTOR COST (1)	FARM CASH RECEIPTS ($MILLION)	MFG SHIPMENTS ($MILLION)	RETAIL TRADE ($MILLION)	HOUSING STARTS URBAN AREAS (ACTUAL)	BLDG. PERMITS ($MILLION)	TOTAL CONST WORK PERFORMED ($MILLION)
1981	1,026.2	461.0	5.9	314.26	100.0	2,276.3	13,344.0	12,160	1,658.3	4,965.6	3,578.4	2,824	340.8	1,538.7
1982	1,034.5	454.0	8.5	346.49	108.8	1,954.9	14,131.0	11,849	1,703.7	4,854.0	3,830.0	2,030	266.1	1,421.5
1983	1,048.1	460.0	9.4	362.15	116.1	2,184.4	15,233.0	12,025	1,769.9	4,882.5	4,099.9	5,985	432.5	1,645.7
1984	1,058.8	472.0	8.3	378.79	120.3	2,538.0	16,818.0	12,707	1,951.2	5,250.1	4,513.7	5,308	528.5	1,873.4
1985	1,070.6	480.0	8.1	387.90	125.3	2,857.3	17,978.0	13,323	1,997.9	5,579.7	5,200.8	6,557	696.4	2,113.9
1986	1,078.6	493.0	7.7			3,152.6	19,105.0	13,840						2,465.9
1985														
JAN	1,065.9	460.0	9.5	381.59	122.4				307.8	405.7	346.3	424	18.7	
FEB		462.0	9.4	382.78	122.6				411.8	410.2	339.2	61	42.5	
MAR		464.0	10.1	382.34	123.4				537.9	492.6	408.5	140	58.7	
APR	1,068.8	466.0	9.0	383.23	124.4				722.8	454.9	426.3	762	52.5	
MAY		481.0	7.8	386.53	125.1				844.0	496.1	469.7	431	78.9	
JUN		486.0	7.8	389.02	125.7				989.3	480.7	442.4	606	56.9	
JUL	1,071.2	496.0	7.7	390.29	126.0				1,103.3	472.2	429.6	794	80.2	
AUG		493.0	8.3	389.42	125.7				1,180.2	468.5	458.5	229	60.1	
SEP		491.0	7.0	392.16	126.3				1,407.3	487.8	417.3	451	71.3	
OCT	1,073.4	492.0	6.5	394.20	126.9				1,678.1	495.9	447.3	286	61.2	
NOV		487.0	7.2	391.22	127.1				1,857.2	465.5	473.9	562	56.9	
DEC		484.0	7.6	392.00	127.7				1,997.9	449.6	541.9	626	58.5	
1986														
JAN	1,075.4	474.0	8.9	398.69	128.4				298.5	420.2	397.1	442	34.3	
FEB		476.0	8.9	394.06	128.9				438.3	429.9	367.0	512	77.3	
MAR		477.0	9.5	396.30	128.9				594.6	470.1	420.4	453	51.8	
APR	1,077.2	481.0	8.7	397.91	129.4				836.0	460.5	459.3	680	77.3	
MAY		495.0	7.8	398.66	130.0				950.7	499.6	488.4	385	90.3	
JUN		502.0	6.4	404.53	130.4				1,145.9	503.9	458.7	688	86.8	
JUL	1,078.9	508.0	7.1	403.70	131.2				1,296.5	483.3	445.4	1,076	80.8	
AUG		508.0	7.0	403.97	131.8				1,377.0	489.6	452.3	491	71.3	
SEP		500.0	5.9	408.63	132.2				1,569.3	504.1	442.5	521	69.7	
OCT	1,080.6	504.0	5.9	409.09	132.7				1,752.7	505.2	476.4	569		
NOV		490.0	7.8		133.2							312		
DEC		494.0	8.0											
YTD	1,080.6	492.4	7.7	401.55	130.6				1,752.7	4,766.4	4,407.6	6,129	639.7	
						% CHANGE (YEAR OVER YEAR)								
1981	0.1	0.7	0.4	11.0	11.1	12.5			12.0	13.6	13.1	8.7	27.5	10.1
1982	0.8	-1.5	2.6	10.3	8.8	-14.1	5.9	-2.6	2.7	-2.2	7.0	-28.1	-21.9	-7.6
1983	1.3	1.3	0.9	4.5	6.7	11.7	7.8	1.5	3.9	0.6	7.0	194.8	62.5	15.8
1984	1.0	2.6	-1.1	4.6	3.6	16.2	10.4	5.7	10.2	7.5	10.1	-11.3	22.2	13.8
1985	1.1	1.7	-0.2	2.4	4.2	12.6	6.9	4.8	2.4	6.3	15.2	23.5	31.8	12.8
1986	0.7	2.7	-0.4			10.3	6.3	3.9						16.7
CURR/ PREV YTD	0.7	2.6	-0.5	3.7	4.5				4.4	2.2	5.3	29.1	23.1	
MB 85/84	4	5	2	7	-	3	-	2	3	5	1	10	2	2
RK 86/85	5	5	2	3	-	2	-	3	2	6	8	3	5	1

(1) Millions of 1981 Dollars
(2) Manitoba Bureau of Statistics Estimate
* Ranking is in ascending numerical order from best performance (1) to worst (10) among provinces.

DATA SOURCE: Statistics Cananada; Conference Board; Manitoba Bureau of Statistics

MANITOBA BUREAU OF STATISTICS
JAN. 09, 1987

TABLE 9
FORECAST SUMMARIES, 1986 AND 1987, MANITOBA AND CANADA

			MANITOBA BUREAU OF STATISTICS (DEC 86)	CONFERENCE BOARD (OCT 86)	ROYAL BANK (NOV 86)	BANK OF NOVA SCOTIA (OCT 86)	BANK OF COMMERCE (SEPT 86)
MANITOBA:	REAL GDP	1986	N/A	3.9	3.8	3.8	3.6
		1987	N/A	3.4	3.5	2.9	2.7
	NOMINAL GDP	1986	6.3	11.5	6.3	N/A	6.2
		1987	N/A	7.2	6.7	N/A	5.6
	EMPLOYMENT	1986	2.7	2.9	2.5	2.5	3.1
		1987	N/A	3.6	2.4	2.2	2.4
	UNEMPOYMENT RATE	1986	7.7	7.6	7.5	7.6	7.3
		1987	N/A	5.8	7.0	7.0	7.1
	WAGES & SALARIES	1986	7.4	7.6	N/A	N/A	N/A
		1987	N/A	7.3	N/A	N/A	N/A
CANADA:	REAL GDP	1986	N/A	3.2	3.1	3.0	3.1
		1987	N/A	2.0	2.5	2.2	2.5
	NOMINAL GDP	1986	N/A	5.8	5.7	N/A	6.2
		1987	N/A	6.3	5.8	N/A	6.3
	EMPLOYMENT	1986	2.9	3.0	3.1	2.8	3.4
		1987	N/A	1.9	1.6	1.4	2.3
	UNEMPOYMENT RATE	1986	9.6	9.6	9.8	9.7	9.6
		1987	N/A	9.3	9.9	9.6	9.4
	WAGES & SALARIES	1986	N/A	4.7	N/A	N/A	N/A
		1987	N/A	5.9	N/A	N/A	N/A

N/A - Not available

(CONTINUED)

TABLE 9 (CONTINUED)
FORECAST SUMMARIES, 1986 AND 1987, MANITOBA AND CANADA

			MANITOBA BUREAU OF STATISTICS (DEC 86)	CONFERENCE BOARD (OCT 86)	ROYAL BANK (NOV 86)	BANK OF NOVA SCOTIA (OCT 86)	BANK OF COMMERCE (SEPT 86)
MANITOBA:	PERSONAL DISPOSABLE INCOME	1986	4.0	8.9	5.0	6.3	7.7
		1987	N/A	5.4	6.0	6.0	6.7
	RETAIL SALES	1986	N/A	6.1	6.0	N/A	9.2
		1987	N/A	5.4	7.0	N/A	6.9
	CPI	1986	4.5	4.2	N/A	N/A	N/A
		1987	N/A	3.9	N/A	N/A	N/A
	HOUSING STARTS (000's)	1986	N/A	7.2	7.8	N/A	N/A
		1987	N/A	7.6	8.3	N/A	N/A
CANADA:	PERSONAL DISPOSABLE INCOME	1986	N/A	5.0	4.5	6.4	6.6
		1987	N/A	6.0	4.8	5.4	5.8
	RETAIL SALES	1986	N/A	7.3	6.9	N/A	8.5
		1987	N/A	6.5	5.1	N/A	6.5
	CPI	1986	N/A	4.0	3.9	4.0	3.9
		1987	N/A	4.1	3.5	4.2	4.2
	HOUSING STARTS (000's)	1986	N/A	181	187	182	180
		1987	N/A	176	173	172	165
	FINANCE COMPANY 90-DAY RATE %	1986	N/A	9.1	8.8	8.7	9.3
		1987	N/A	8.5	8.2	7.0	8.6

N/A - Not available

For more information, please contact:

Roy Ellis, Head, Economic Services, Manitoba Bureau of Statistics (204) 945-2994.

BEEF CATTLE SITUATION & OUTLOOK, 1986-87

1986 SITUATION

As Manitoba relies on external markets, such as the United States and Eastern Canada, to market over 60 percent of cattle and beef produced in the province, the situation in the United States has a significant influence on Manitoba's cattle industry. A summary of events affecting U.S. markets in 1986 may give some insight into the reasons for Manitoba cattle price movements during the year.

United States : The smallest cattle herd in 24 years was recorded at the beginning of 1986. Low to negative profit margins and the depressed financial situation of many cattle producers continued to encourage herd reduction and liquidation. With fewer slaughter cattle and hog marketings expected in 1986, the outlook for cattle prices appeared relatively good. Unfortunately, cheap grain, relatively mild weather and the hope of improved prices encouraged cattlemen to overfeed their animals. A backlog of overweight cattle developed early in the winter, which had a depressing effect on prices.

However, by February the number of cattle entering feedlots had declined by 10 percent from year earlier levels. The resulting reduction in fed cattle marketings in late spring and early summer was expected to have a positive effect on cattle prices. This expectation was short-lived. On April 1, 1986 U.S.D.A. introduced the Dairy Termination Program, which was intended to reduce milk production through the government purchase and slaughter of whole herds of dairy cattle. The program was expected to add about 3-4 percent more beef to the market during the second and third quarters of 1986 and was expected to continue until the summer of 1987. Although, U.S.D.A. had made provision to remove the additional beef supplies from the market place for domestic feeding programs and export, traders on the futures market obviously anticipated that an excess supply situation would develop and futures prices fell accordingly. As many meat wholesalers and retailers use forward pricing contracts based on futures prices, the overreaction of the futures market led to a drop in live cattle prices of about U.S. $4-5/cwt during the two weeks following the dairy program announcement. Beef cattle producers reacted strongly to the effect the program and the futures market had on their industry and, as a result, the U.S.D.A. agreed to alter its schedule of dairy cattle marketings and to purchase more beef earlier in the year than originally planned. An investigation of cattle futures trading was also initiated.

However, the damage had already been done and U.S. cattlemen estimated that they had lost millions of dollars because of unnecessary declines in cattle prices. The dairy program caused total cattle marketings for 1986 to rise by 3 percent, but the average slaughter weight remained at the 1985 level.

Spring is seasonally a period of stronger cattle prices and the improved demand for beef contributed to a slight price increase. However, the significant price rise which should have occurred as a result of declining beef cattle marketings did not materialize because of the additional dairy cattle slaughter.

The event which precipitated an upswing in cattle prices was the release of the U.S.D.A. hog inventory report at the end of June. Hog and cattle prices jumped by about 10 percent in the week following the report's release. Fed cattle prices remained in the high U.S. $50/cwt to low U.S. $60/cwt (low to mid C$80/cwt) price range for the rest of 1986 with Choice steer prices averaging close to U.S. $58/cwt (C$81/cwt) for the year. This was an increase of less than one percent from 1985.

Low-grain prices contributed to a significant improvement in the profitability of the cattle sector, particularly in the last half of the year. U.S. cattlemen, who had suffered from lower prices as a result of overfed cattle in summer, 1985, were not tempted to repeat the situation during the second half of 1986 despite ample supplies of low-priced grain. The short-run profitability was not sufficient to encourage cattlemen to rebuild their herds. This was confirmed by the July 1 cattle inventory report which showed a 4 percent decrease in the U.S. beef cattle herd from the 1985 level.

Improved profitability and the approaching termination of tax incentives for cattle feeding increased the demand for the smaller supply of feeder cattle and calves, particularly during August and September. For the first nine months of the year, feeder steer prices averaged 12 percent above year earlier levels.

A major concern of U.S. cattlemen continues to be the declining demand for beef which has contributed to poor cattle prices over the past five years. Poultry production increased by 4 percent in 1986 and is expected to increase by a further 6 percent in 1987, when per capita poultry consumption is likely to surpass that of beef. However, various promotional and educational programs were initiated in 1986. These programs, together with the introduction of "brand name" and "super-trimmed " pre-cut beef and other new beef products, could reverse the trend of lower beef consumption in 1987.

Manitoba: Not only were Manitoba cattle prices affected by the situation in the United States in early 1986, but they also suffered from an influx of subsidized boneless beef into Canada from the EEC, particularly Ireland and Denmark. After rejecting a trade agreement between the federal government and the EEC which would have limited European beef exports to Canada, the Canadian Cattlemen's Association was successful in having countervailing duties imposed on Danish and Irish beef. As a result, 1986 European beef imports decreased to only 10% of the 1985 level and were replaced by higher priced, non-subsidized Australian boneless beef, which appears not to have had as depressing an effect on Canadian cattle prices.

The number of cattle on Manitoba farms on July 1, 1986 had declined by 6 percent from a year earlier, according to Statistics Canada. Beef cows were down by 5 percent from 1985, while the number of calves on Manitoba farms declined by only 2 percent over the year. However, a producer survey conducted by the Manitoba Beef Commission suggested that the liquidation of the Manitoba cow herd was not as great as Statistics Canada estimates indicate.

Although the number of cattle slaughtered in Manitoba packing plants was almost 3 percent above last year's level for the first ten months of the year, reduced marketings in November and December kept the 1986 slaughter at 377,420 head, less than one percent above the 373,690 cattle killed in 1985. Almost 70 percent of all cattle slaughtered in the province were produced in Manitoba. The shortage of slaughter cattle in the last two months of the year was responsible for the higher rail grade prices recorded during the mid-November to mid-December period. A1,2 steer prices peaked at $86.25/cwt in November, a 35 percent increase from the year's low price recorded in mid-June.

The average A1,2 steer price for 1986 was $76.50/cwt, up by 0.2 percent from the previous year. Cow prices averaged close to $50/cwt in 1986 compared to $48.75/cwt in 1985.

Continued efforts to retain cattle for feeding within the province were hampered by the strong external demand and high prices for feeder cattle and calves, particularly in September and October. Much of the demand came from Eastern buyers who purchased over 33,000 calves in those two months alone. Although this number was larger than desirable, it was a 7,000 head reduction from a year earlier. Average feeder steer calf prices rose from $81.17/cwt in September, 1985 to a high of $102.44/cwt in September, 1986. The average price of feeder steers (over 800 lb.) remained relatively steady at $75.70/cwt in 1986 compared to $75.21/cwt in 1985. However, feeder steer calf (400-500 lb.) prices rose by 7 percent from an average of $82.89/cwt in 1985 to average $88.50/cwt in 1986.

1987 OUTLOOK

United States: The main factor which will affect the 1987 cattle forecast is herd inventory change. Continued low feed grain prices and interest rates, abundant forage supplies and relatively good cattle prices have made cattle production profitable. This would normally encourage herd expansion. However, credit difficulties and uncertainty regarding U.S. farm policies could make cattlemen cautious. If producers do begin to rebuild their herds, then beef supplies will be lower in 1987 than if herds are maintained at the 1986 level. In any event, the reduced breeding herd in 1986 will mean a smaller calf crop in 1987 than in 1986, feeder numbers will be down and the end of the Dairy Termination Program will mean fewer slaughter animals. The U.S.D.A. has projected that, if the cattle inventory remains stable, total beef supplies will decrease by 5-7 percent in 1987 with most of the decline coming in the second and third quarters.

Reduced beef supplies normally would be expected to result in higher cattle prices. However, poultry production could rise by at least 6 percent in 1987 which, together with more pork in the fourth quarter, could reduce the consumer demand for beef and limit potential price increases. It is expected that smaller supplies of fed steers and heifers by next spring are likely to increase Choice steer prices to the mid U.S. $60/cwt range, but further price increases later in the year are unlikely. Choice steer prices are expected to average in the U.S. $60-64/cwt range (C$82-88/cwt) for 1987, a 5-10 percent increase from the 1986 average price. Although, it is projected that U.S. poultry consumption will exceed that of beef on a retail basis in 1987, the improved and innovative marketing programs introduced by the beef industry in 1986 could reverse the trend of declining beef consumption. This reversal, if it occurs, will also have a positive influence on the Canadian beef industry. With less beef available in the U.S. during 1987, any increase in demand could mean increased imports of Canadian beef.

Feed grains are projected to continue in ample supply at low prices during 1987. As feeder supplies could be 3-4 percent below the 1986 level, it is expected that there will be continued good demand for feeders, despite the termination of tax incentives for feeding cattle. Feeder cattle prices are likely to average in the U.S. $65-68/cwt range, (C$90-95/cwt) in 1987, a 3-8 percent increase from 1986.

Manitoba: Whenever the U.S. outlook for cattle prices looks brighter, something unexpected occurs to adversely affect prices. Last year, it was the Dairy Termination Program, the year before, a prolonged period of overweight cattle marketings. 1987 could be the year the U.S. government imposes countervailing duties on Canadian cattle

and beef imports. A study on the competitive position of Canadian cattle in the U.S. market is being undertaken and the results are expected tc influence the decision on countervailing duties. If imposed, duties would have a significant negative impact on Canadian cattle prices and price forecasts will have to be adjusted downward by at least the amount of the duty.

The Canadian duty on U.S. corn imports, introduced in November, 1986, will have little or no effect on the Manitoba beef industry. Western barley supplies will be ample in 1987 and prices will remain low. Despite higher feeder cattle prices, cattle feeding is expected to remain profitable in 1987 mainly because of low feed prices and interest rates. Strong prices for feeder cattle and calves and reduced female slaughter in 1986 point to breeding herd stability in the province in 1987.

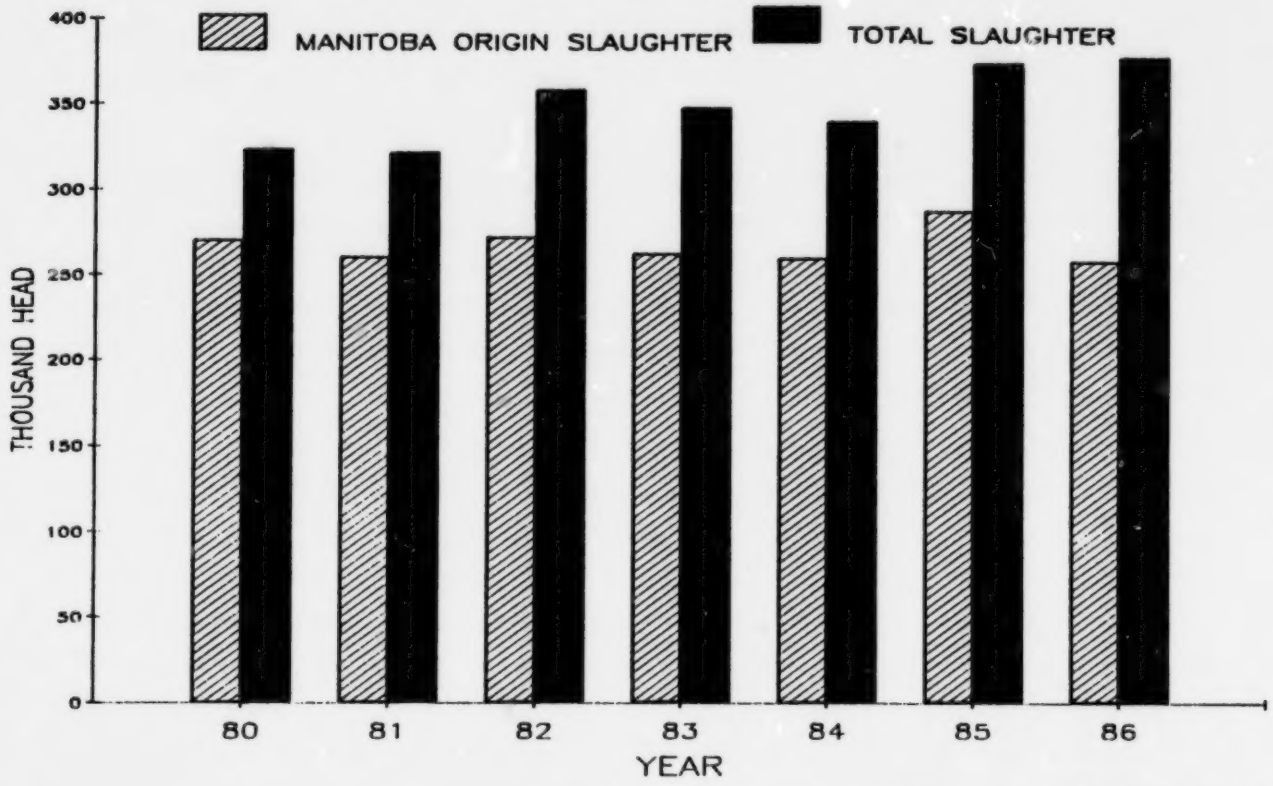
The number of Manitoba-produced cattle available for slaughter in 1987 is expected to be down by 2 percent from the previous year if Statistics Canada inventory numbers are correct. However, if more feeder cattle and calves are retained in the province for finishing, then Manitoba-produced cattle slaughterings for 1987 could be close to the 258,000 head killed in 1986. There is some uncertainty about projecting the total inspected slaughter for Manitoba in 1987. Canada Packers, which is responsible for over 40 percent of cattle slaughter in the province, is due to close its killing operation in April, 1987. Even without additional cooler space, it is likely that the remaining four packing plants will be able to kill about 6,500 cattle per week or over 90 percent of the 1986 slaughter. As Canada Packers traditionally has slaughtered a large percentage of the cows and off-grade animals, these are the classes of cattle which could be most affected by the plant closing.

In the absence of countervailing duties, A1,2 steer prices could average $78-82/cwt for the first quarter, 1987, an increase of 8 percent from the same period in 1986. Prices in the second quarter are likely to rise to $79-83/cwt with a slight decline expected in the third and fourth quarters. The 1987 average A1,2 steer price could reach $79/cwt, an increase of over 3 percent from year earlier levels.

The demand for feeder cattle and calves is projected to continue strong into 1987 and prices for good feeder steers (+800 lb.) could rise by 6 percent to average $80/cwt for the year. Feeder steer calves (400-500 lb.) at an average $91/cwt could be almost 3 percent above the 1986 level.

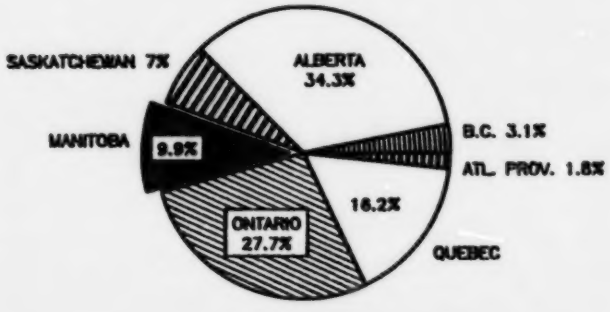
For further information on cattle, please contact:
Janet Honey, Chief, Economics and Market Analysis (204) 945-2364.

MANITOBA CATTLE SLAUGHTER NUMBERS 1980-86

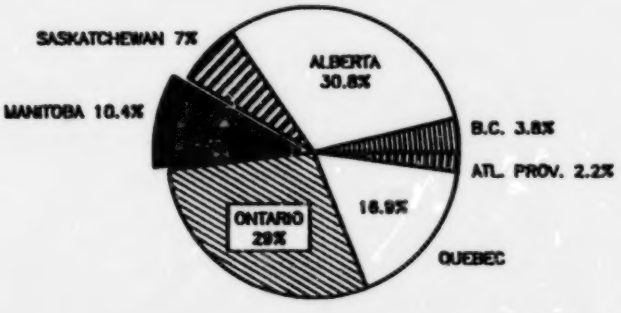


Datasource: Agriculture Canada

FEDERAL/PROVINCIAL CATTLE SLAUGHTER BY PROVINCE, 1985 and 1986

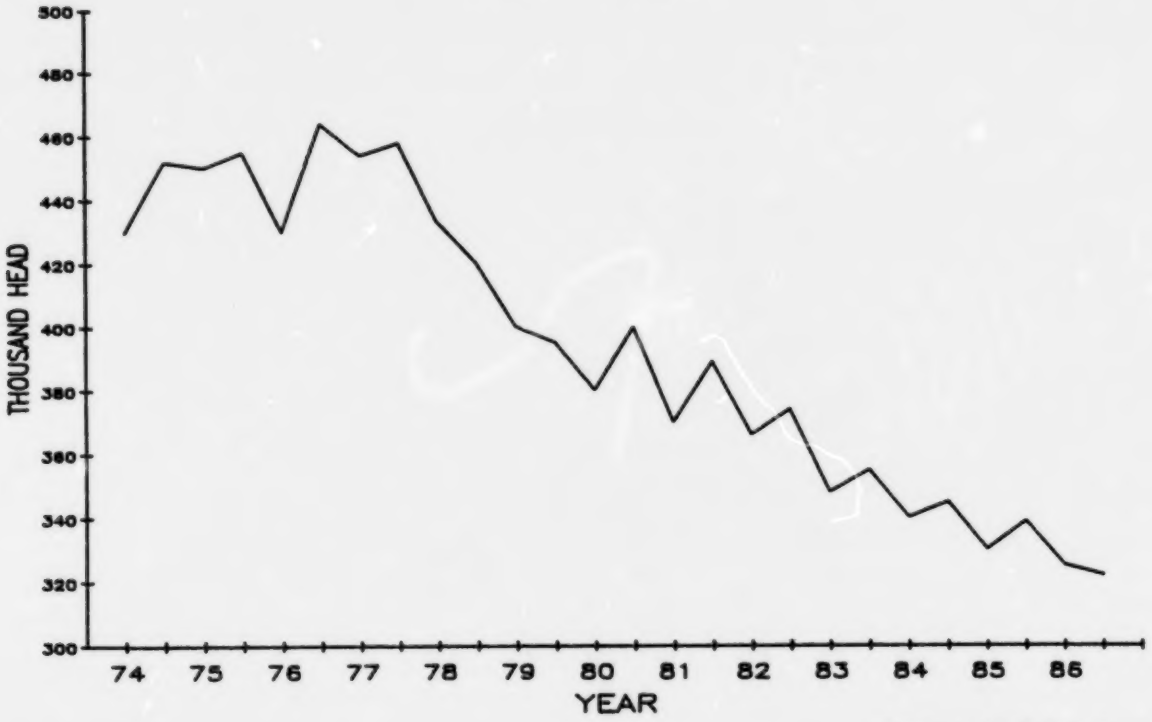


1985



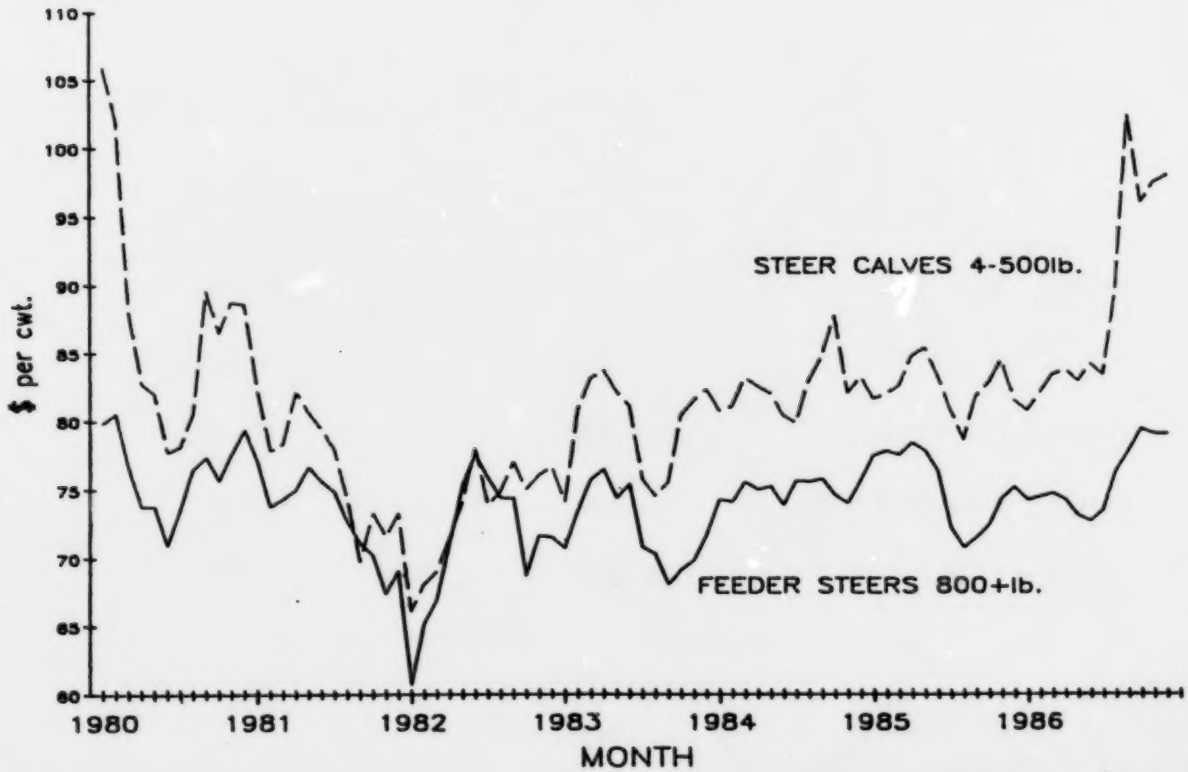
1986

MANITOBA CATTLE ON FARMS, 1974-1986
BEEF COWS



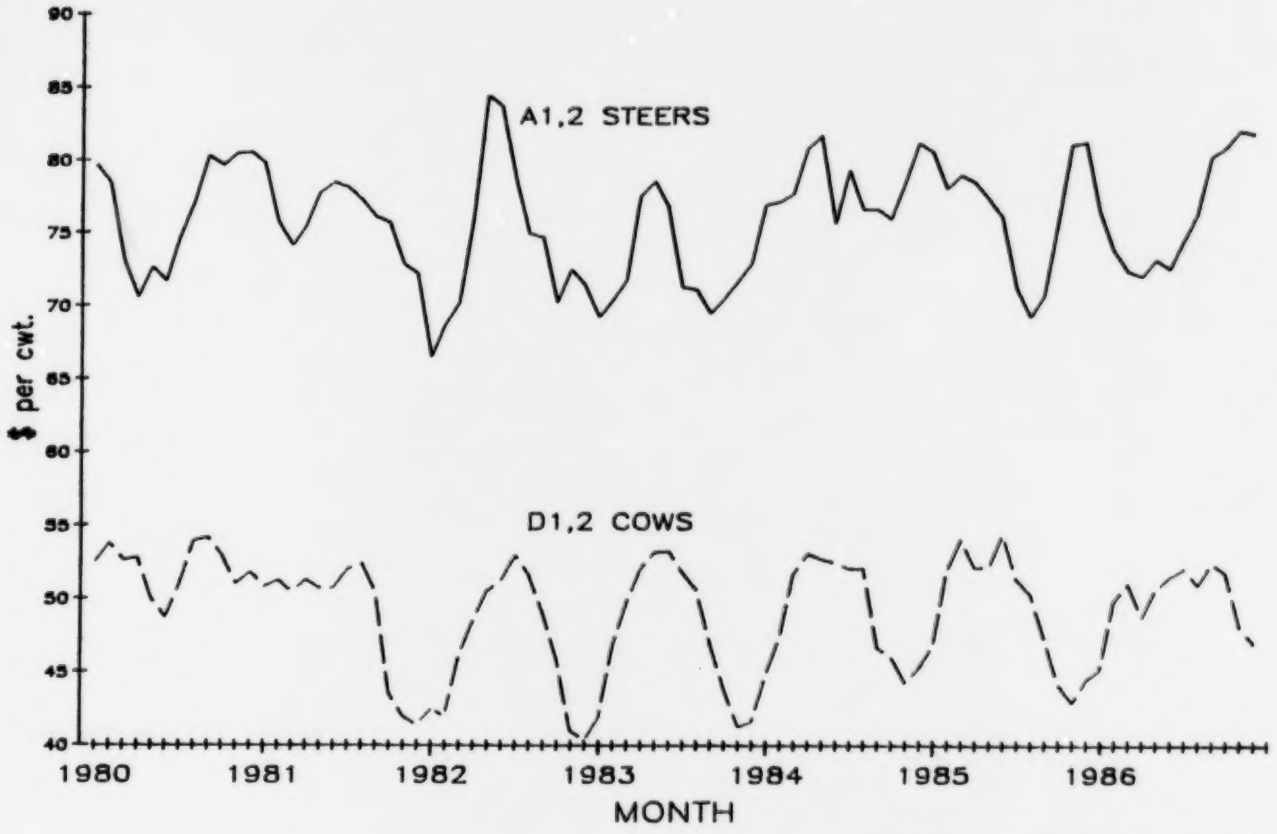
Source: Statistics Canada

WINNIPEG CATTLE PRICES BY MONTH
1980-1986



Datasource: Agriculture Canada

WINNIPEG CATTLE PRICES BY MONTH
1980-1986



Datasource: Agriculture Canada

WINNIPEG PRICES FOR A1,A2 STEERS, 1985-87

	1985	1986	1987E
		$/cwt	
FIRST QUARTER	79.28	74.28	78-82
SECOND QUARTER	77.35	72.66	79-83
THIRD QUARTER	70.48	77.20	76-80
FOURTH QUARTER	79.46	81.90p	76-80
YEAR	76.34	76.50p	79

p:projection E:Estimate

WINNIPEG PRICES FOR GOOD FEEDER STEERS (800+LB) 1985–1987

	1985	1986 $/cwt	1987E
FIRST QUARTER	77.56	74.45	79–83
SECOND QUARTER	77.45	73.28	79–83
THIRD QUARTER	71.42	75.87	76–80
FOURTH QUARTER	73.94	79.15p	76–80
YEAR	75.21	75.70p	80

p:projection E:Estimate

WINNIPEG PRICES FOR GOOD FEEDER STEER CALVES(4–500LB) 1985–87

	1985	1986 $/cwt	1987E
FIRST QUARTER	82.02	82.04	89–93
SECOND QUARTER	84.42	83.61	90–94
THIRD QUARTER	80.37	91.74	89–93
FOURTH QUARTER	82.90	96.50p	88–92
YEAR	82.89	88.50P	91

p:projection E:Estimate

HOG SITUATION & OUTLOOK, 1986-87

1986 SITUATION

Despite an optimistic forecast of higher hog prices made early last year, there was no indication that prices would increase to the extent they did. It may be useful to outline the situation in the United States over the year to provide some insight into the factors influencing price movement in 1986.

United States: Lower beef prices than expected, heavyweight market hogs, larger volumes of hogs marketed than expected and increased poultry production in the United States early in the year contributed to a steady decline in hog prices until mid-April. This situation was aggravated by large stocks of pork in cold storage caused by weak consumer demand.

The increase in hog marketings in the first quarter of 1986 can be attributed to the poor financial situation faced by many hog producers, who were forced to market more hogs than anticipated to generate cash flow. Some producers tried to compensate for low prices by overfeeding lower-priced grain. The net result of additional heavyweight hog and sow marketings was an increase in first quarter hog market weights of 2-4 lb. compared to year earlier levels. The U.S.D.A. compounded an already weak market situation in early April by announcing a program to reduce the national dairy herd by buying and slaughtering dairy cattle. The anticipation of increased beef supplies lowered beef prices and led to a further reduction in hog prices which fell to an annual low of less than U.S. $40/cwt (live) (C$70/cwt dressed) on April 8, 1986. At that time the outlook for the hog industry was bleak, to say the least.

However, hog prices did improve somewhat due to a seasonal reduction in marketings and increased movement of pork at the retail level. By May, U.S. packers were beginning to realize that the days of ample hog supplies were over and that summer marketings could be tight. This was confirmed by the June 1, 1986 U.S.D.A. Hogs & Pigs Report. The report showed the smallest U.S. hog herd since 1975 with breeding stock at 9 percent below year earlier levels. At the same time, cold storage stocks of pork were reported to be 3 percent and 31 percent below the level of previous month and year respectively. In response to these reports, U.S. hog prices rose by over 10 percent in one week. The market had finally taken off and prices kept rising until they peaked at U.S. $65.75/cwt (live) (C$117.25/cwt dressed) on August 22.

These high prices encouraged many producers to sell all the sows they could spare and sow slaughter was particularly high during June and July. There was no indication of increased gilt retention during the summer despite record high hog-corn ratios.

The weather also had an impact on hog prices. The drought and excessive heat in the southeastern states, where much of the U.S. poultry production takes place, caused reduced poultry supplies and higher poultry prices. Extremely high summer temperatures also reduced consumption of red meats, but consumer reaction to the significant increase in retail pork prices (pork chops almost doubled in price from 1985 to 1986) was not as negative as expected. This was partly due to the absence of cheap chicken and turkey as an alternative to pork.

When the September 1, 1986 Hogs & Pigs Report was released by U.S.D.A. in late September, hog prices had already declined about 9 percent from their peak in August. This was mainly because of the seasonal increase in marketings as well as the increasing availability of lower-priced chicken as an alternative to pork at the retail level. The September report indicated about 800,000 (4 percent) more market hogs in the 60+ lb. categories than had been reported in June. However, as the June report indicated, September-November farrowing intentions were still down by 9 percent from year earlier levels. Which report was correct? Industry traders took the pessimistic approach and believed the September numbers. Hog prices declined to a low of U.S. $53/cwt (live) by mid-October. Other factors, such as the rumour of labour strikes in U.S. packing plants, had a depressing effect on prices. However these strikes did not occur and, when the expected increased supply of market hogs didn't materialize, prices began to rise again. November and December prices have not gone much above the U.S. $56/cwt (live) mark mainly because of increased average market weights which reached over 250 lb. by the end of the year compared to 246 lb. in 1985.

For the year, U.S. hog slaughter was almost 6 percent below the 1985 level, while prices averaged U.S. $52/cwt (live) (C$92/cwt dressed), a 17 percent increase from the previous year.

Manitoba : Manitoba produces more hogs than can be consumed locally. Approximately 70-75 percent of the hogs produced in the province have to be exported either in the live or processed state. Without the availability of external markets in other provinces, the United States and Japan, Manitoba hog production would not have been able to attain its current record level. Over the past three years, when U.S. hog

producers responded to low hog prices by reducing production, Manitoba producers were insulated to some extent from a depressed North American market by the provincial stabilization plan. Stabilization, in conjunction with other factors, resulted in Manitoba hog numbers increasing by 30 percent (283,000 head) from January 1, 1983 to October 1, 1986. Much of Manitoba's market share lost to Quebec in the late 1970s has been regained over the past couple of years. Manitoba now produces over 11 percent of the Canadian slaughter hogs compared to 8.8 and 9.3 percent in 1982 and 1984 respectively.

Because of the reliance on external markets to sell most of its product, the Manitoba hog industry is affected by the market situation in the U.S. as well as in other Canadian provinces. Manitoba hog prices generally follow the U.S. trend. The difference between local and U.S. prices depends primarily on transportation costs but does tend to fluctuate according to the supply and demand situation in the two countries. This price spread was artificially widened in April 1985 when countervailing duties were imposed by the U.S. government on Canadian hogs and pork exported to the U.S. However, the duty on pork was removed in July, 1985. The duty on hogs still remains and, to some extent, has encouraged slaughtering and further processing of pork, particularly in Manitoba, Saskatchewan and Ontario. One method some Manitoba producers have been using to reduce the impact of countervailing duties, while at the same time taking advantage of low U.S. corn prices, is to export weanlings to the States to be sold or fed.

Although Canadian hog slaughterings were down by about 1 percent in 1986, this was mainly due to the labour strikes in Alberta packing plants where 11 percent fewer hogs were slaughtered than in 1985. However, in 1986 total Canadian sales of hogs and pork to the U.S. decreased by about 11 percent from the previous year, despite the fact that exports of pork increased by over 13 percent. Slaughter hog exports for the year were about 39 percent of those in 1985. The question now being asked is whether live hog exports would increase significantly if countervailing duties were removed and what would happen to domestic slaughter levels as a result.

As mentioned earlier, Manitoba hog prices usually follow the U.S. trend. As in past years, until mid-August, 1986, local prices were below those in Ontario. However, increased demand for hogs by Manitoba packers pushed provincial hog prices above those in other Canadian markets during the last four months of the year. There were several reasons for higher Manitoba prices. Firstly, the labour strikes at Alberta's two major packing plants, Gainers and Fletchers, provided an opportunity for Manitoba plants to supply the Alberta retail market with pork products. Although the strike at Fletchers was of fairly short duration, Gainers' employees were on strike for over six months, which meant the plant had to operate at less than normal capacity using

relatively inexperienced workers. Secondly, Manitoba's pork exports to Japan increased in 1986, with over two thousand tonnes being shipped during the first eight months of the year. Thirdly, the new Springhill Farms Ltd. plant at Neepawa which opened on September 29, 1986, was killing over 15 percent of Manitoba's weekly hog marketings by the end of the year. Because there were sometimes insufficient Manitoba hogs to meet demand, local packers periodically had to buy Alberta hogs through the M.H.P.M.B. to supplement their needs. In 1986, Manitoba produced over 2 percent more slaughter hogs, but total inspected slaughter in the province was almost 5 percent above the 1985 level.

From a low of 136.68¢/kg ($62/cwt) in April, the Manitoba Index 100 hog price reached a record 231.50¢/kg ($105.14/cwt) on August 12 and managed to stay above 200¢/kg ($90/cwt) on most days until mid-December. The average 1986 Index 100 hog price was $81/cwt, an increase of 22.3 percent from the previous year.

Not only have prices been high, but feed costs have declined. The hog-barley ratio[1] peaked at almost 53 in August. It has been estimated that feeding hogs is generally the most profitable way of marketing feed barley if the hog-barley ratio is above 20, depending of course on other non-feed costs. The hog-barley ratio indicates that hog production in Manitoba has been generally profitable since June, 1985. Previous periods of profitability occurred in 1977-79 and 1982-83.

The improved financial situation of Manitoba hog producers has naturally led to continued herd expansion. The October 1 Statistics Canada hog report show that the number of sows and gilts kept for breeding in Manitoba has increased by 0.4 and 3 percent from previous quarter and year earlier respectively. In addition, sow marketings as a percentage of total marketings dropped to 1.6 percent in October, compared to 1.77 for the first half of 1986 and to an average of 2.1 percent in 1982. Because Manitoba markets only about 1 percent of North American hog production, further hog herd expansion in the province will have very little effect on hog prices provided markets are available in other provinces, the U.S. and Japan. However, simultaneous herd expansion in other Canadian provinces and the U.S. without a compensating increase in pork consumption will result in declining hog prices.

1987 OUTLOOK

A look at the U.S. outlook for 1987 will give some indication of the market situation Manitoba producers can expect next year.

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[1] The number of bushels of No. 1 feed barley (basis Winnipeg) equal in value to 100 lb. of live market hog (Index 100).

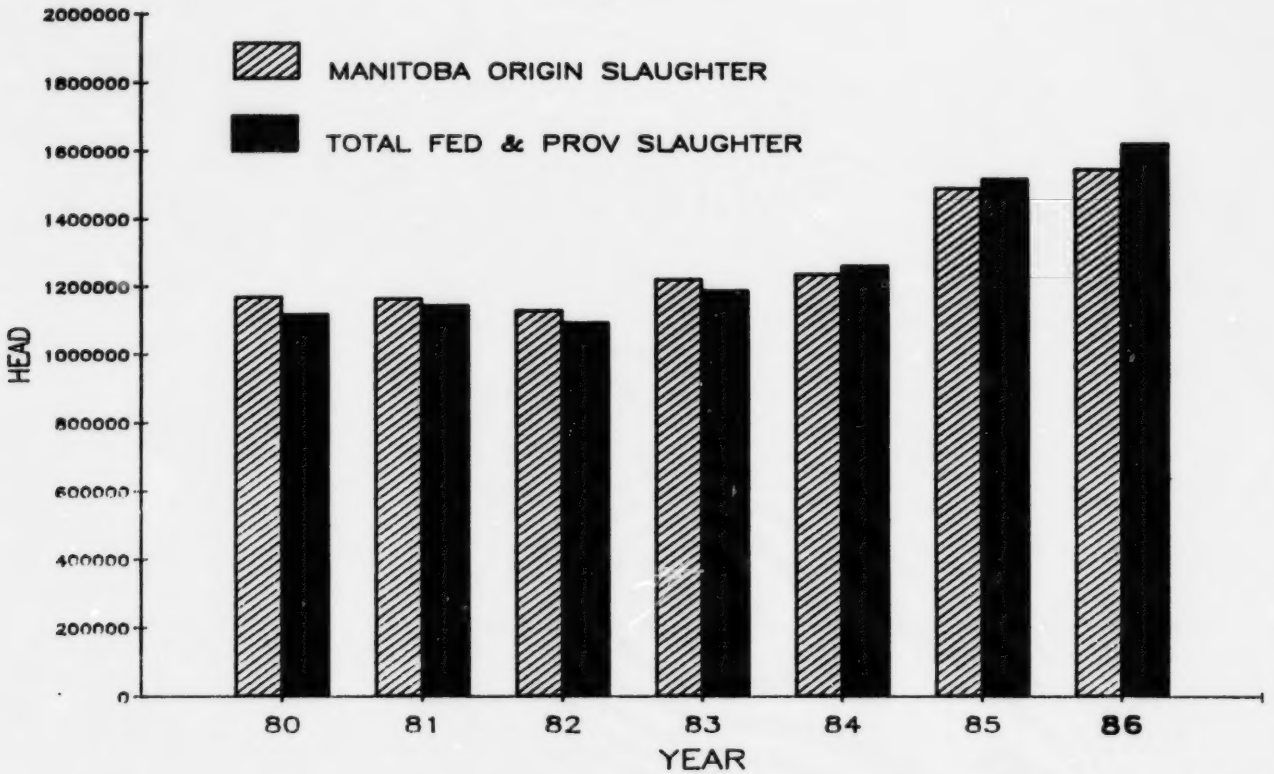
United States: Total U.S. hog numbers and September-November, 1986 farrowings were both down by 3 percent from last year. Some herd rebuilding occurred in the fourth quarter, 1986, but it is unlikely that hog marketings will increase significantly during the first nine months of 1987. The December, 1986-May, 1987 pig crop could be 2 percent above the previous year's level which would mean increased marketings into 1988. Hog prices are therefore expected to remain strong until the fall of 1987. There are several factors which could dampen this optimistic forecast. Firstly, cheap corn and high hog prices are encouraging U.S. hog producers to feed their hogs to more than optimum weights. By the end of 1986, average market weights were about 8 lb. higher those recorded in early October before new-crop corn became available. Heavier carcasses will partially offset reduced marketings and could result in larger than expected pork supplies. Secondly, favourable weather conditions in the poultry-producing areas of the U.S. could result in increased supplies of lower-priced chicken and turkey which will compete with pork at the retail level.

For the first and second quarters of 1987 hog marketings are expected to be about 2-3 percent below the 1986 level. In the third quarter, marketings could be down by 1-2 percent from the same period in 1986, while fourth quarter marketings are expected to be about 2-3 percent above last year's level. Hog prices are likely to average in the U.S. $49-53/cwt (live) range in the first half of the year, declining to about U.S. $46-50/cwt (live) in the third quarter and U.S. $42-46/cwt (live) in the last three months of 1987.

Manitoba: Although Manitoba hog prices are expected to follow the general direction of U.S. prices, it is probable that the differential between the two price series could decrease from year earlier levels. This is because the strong competition for local hogs by Manitoba packing plants is expected to continue until at least April, 1987, particularly if slaughter levels at the Springhill plant increase. When the Canada Packers plant closes in early spring, it is expected that there will be only a slight reduction in Manitoba hog kill levels initially because the remaining Winnipeg slaughter plants, which are currently operating at about 65 percent of capacity, could increase hog slaughterings. The Neepawa plant has the capacity to more than double its current production.

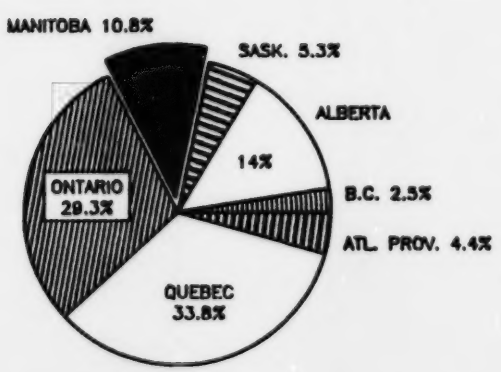
Manitoba hog production is projected to increase by about 2-3 percent in 1987. Local prices for Index 100 hogs are expected to average in the $81-85/cwt range in the first quarter, rise to $82-86/cwt in the second quarter, but decrease to $79-83/cwt in the third quarter and $74-78/cwt in the fourth quarter. The average price for 1987 could remain at close to the 1986 level of $81/cwt.

MANITOBA HOG SLAUGHTER NUMBERS 1980-86

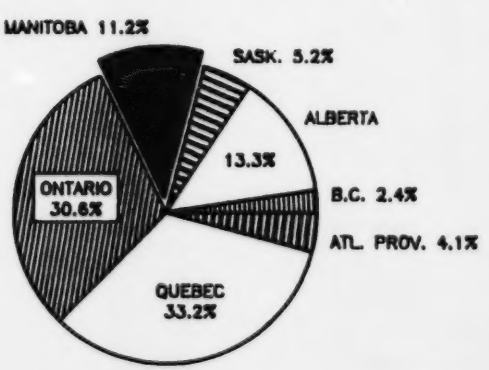


Datasource: Agriculture Canada

HOG SLAUGHTER BY PROVINCE OF ORIGIN 1985 and 1986

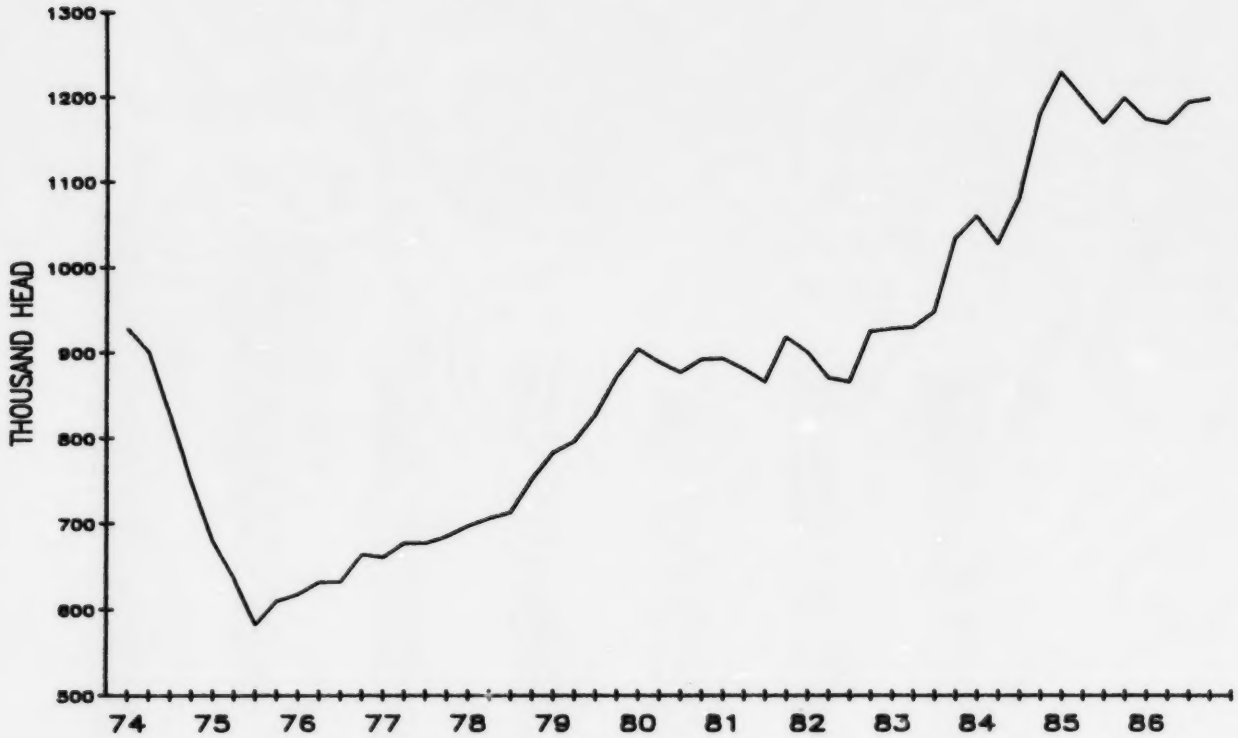


1985

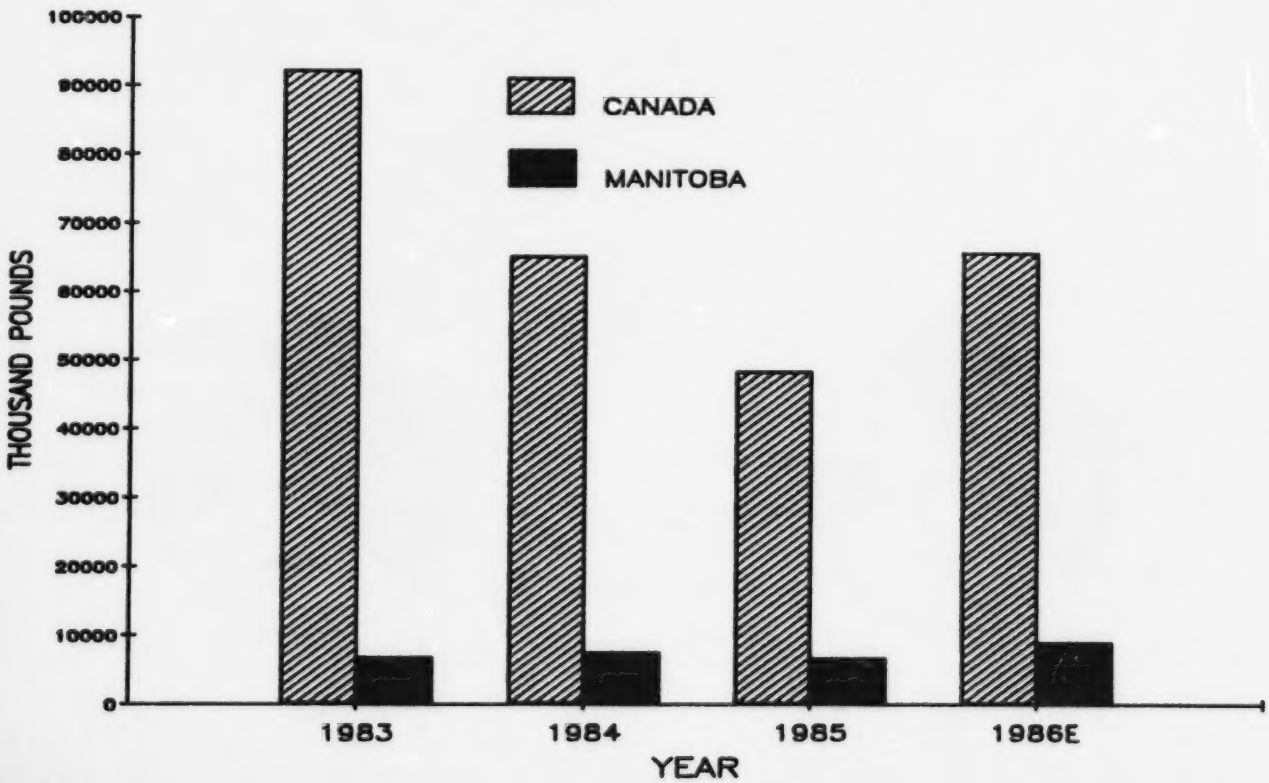


1986

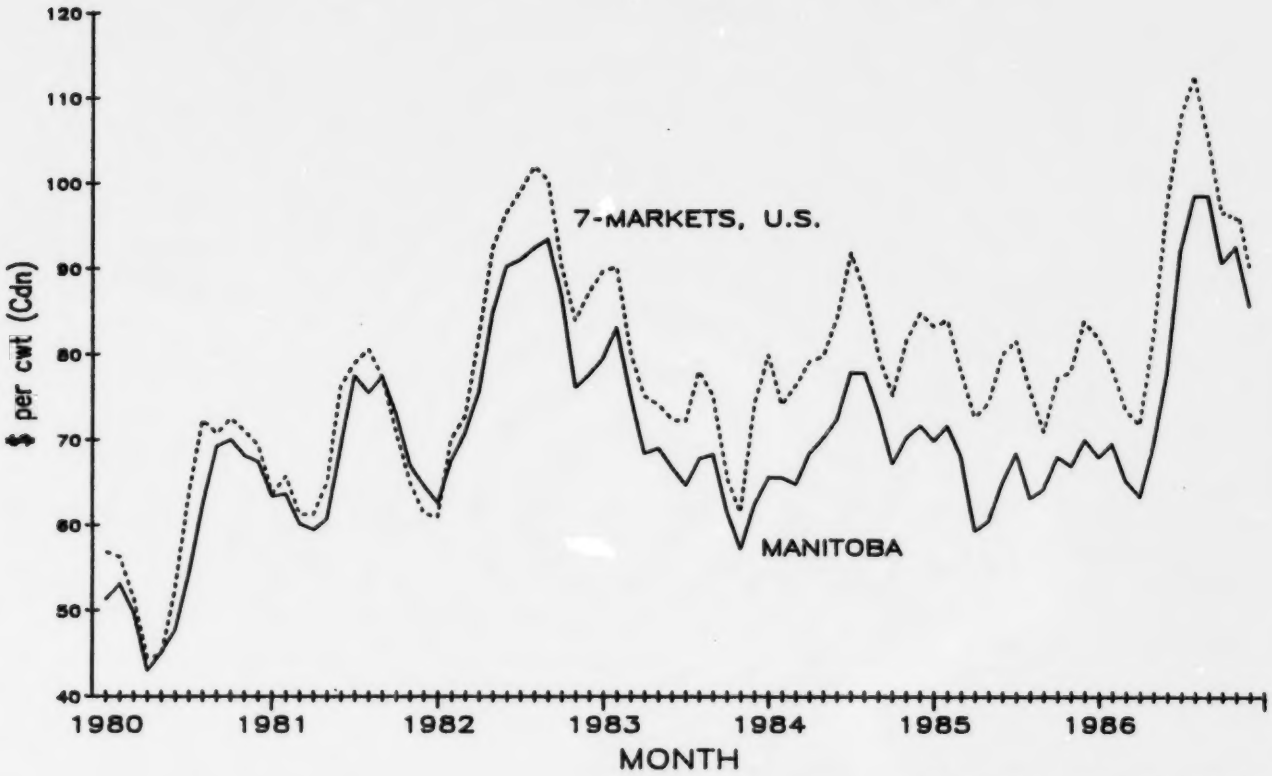
MANITOBA HOGS ON FARMS BY QUARTER, 1974-86



PORK EXPORTS TO JAPAN, 1983–1986 CANADA AND MANITOBA



HOG PRICES BY MONTH, 1980-86
Index 100 dressed weight



Source: Agriculture Canada & U.S.D.A.

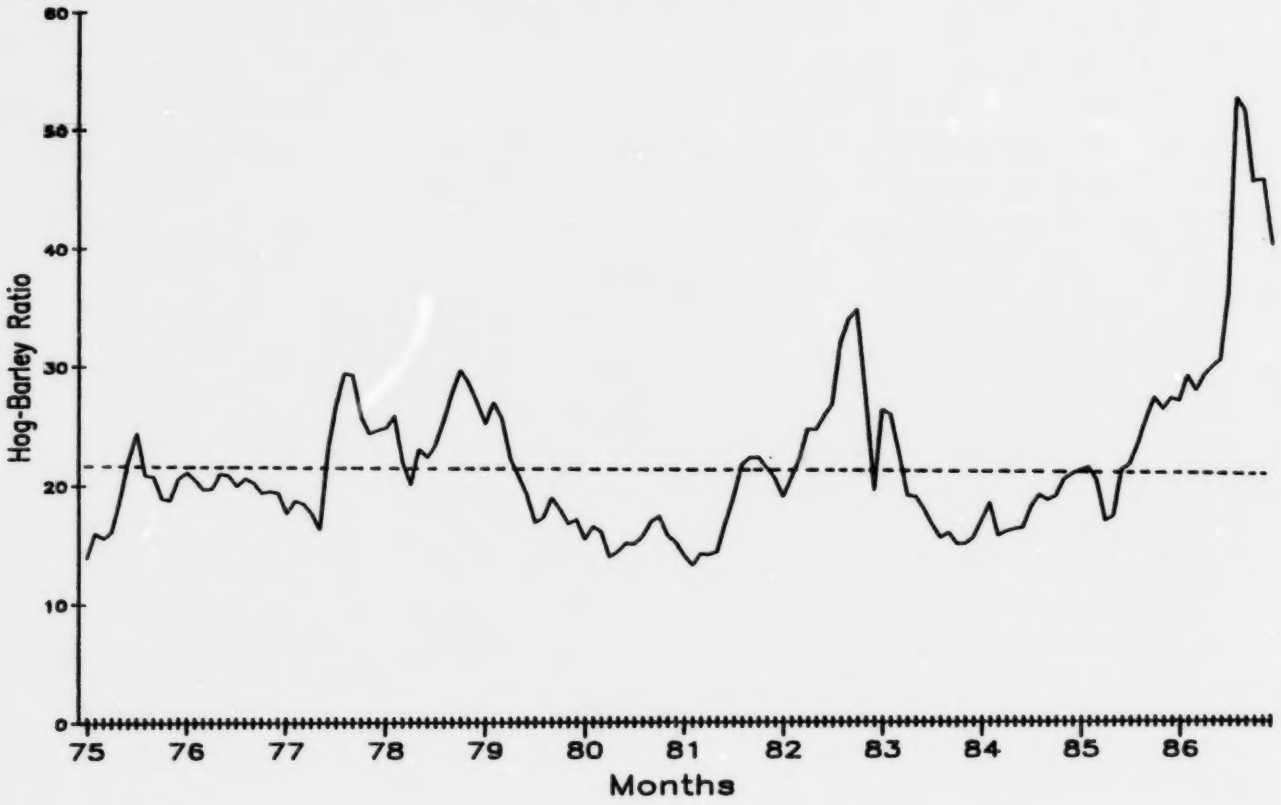
WINNIPEG PRICES FOR INDEX 100 HOGS, 1985–87

	1985	1986 $/cwt	1987E
FIRST QUARTER	69.79	67.54	81–85
SECOND QUARTER	61.60	70.17	82–86
THIRD QUARTER	65.28	96.58	79–83
FOURTH QUARTER	68.30	89.68	74–78
YEAR	66.25	81p	81

E:Estimate p:projection

CYCLICAL CHANGES IN THE HOG-BARLEY RATIO

Live Basis-Winnipeg
1975 - 1986



For further information on hogs, please contact:

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SPRING WHEAT

Supplies

World wheat production for 1986/87 is at an all-time high of 520-522 million tonnes, according to both the International Wheat Council and the U.S.D.A.'s December estimates. While only 4 1/2% above 1985/86, the world crop is much larger than had been previously expected, primarily due to a larger USSR crop estimate. The USSR crop is now estimated at 87 million tonnes, an increase of nearly 9 million tonnes offsetting the 9 1/2 million tonne decline in U.S. production. China, the world's largest wheat producer for the last four years, has an estimated 1986/87 crop of 89 million tonnes. Despite the 4% larger crop, China is still expected to import 6 1/2 million tonnes of wheat in 1986/87, virtually the same as in 1985/86. The USSR, however, is expected to reduce 1986/87 wheat imports by 3.7 million to a total of 12 million tonnes. As a result, the major world importer of wheat for 1986/87 is expected to be the EEC-12, with nearly 16 million tonnes of imports, all but 2.6 million tonnes of it traded between member countries. The EEC-12 will, however, have a net export position since it exports about 28 million tonnes of wheat. The EEC wheat import level, however, is currently threatened by trade disagreements with the U.S. Overall, world wheat exports are currently expected to rise by only 2 million tonnes in 1986/87. Since most of the 17 million tonne increase in consumption will occur in producing areas, the world carryover of wheat will increase by 12% or nearly 17 million tonnes to more than 154 million tonnes. U.S. wheat carryover alone is expected to remain at the record level of over 51 million tonnes.

Outside of North America, many producers appear intent on increasing production for 1987/88. China will likely maintain plantings; but average yields have already improved dramatically, rising to approximately 50% above Canada's. Winter wheat plantings appear to have increased in Europe, while in Canada they have declined 37%.

In the U.S., the U.S.D.A. is expecting a high level of participation in the 27.5% wheat acreage reduction program for 1987/88. The U.S.D.A. expects U.S. Winter wheat plantings to have declined 10-15% from 1986; however, indications are that the cutbacks so far have been far short of U.S.D.A. expectations. It is more likely that the U.S. wheat area may be only marginally smaller in 1987/88. With good yields, the crop size could be similar to 1986/87.

Total Canadian wheat production totalled 31.8 million tonnes in 1986, 31% above 1985. Yields were high in both Saskatchewan and Alberta. Harvesting problems,

however, reduced Manitoba's wheat crop by 14% to 4 1/2 million tonnes, including 419 000 tonnes of Durum. The quality distribution of the 1986 western Canadian crop was not much improved from 1985. Only 56% of the wheat crop is expected to grade 1 or 2CW, another 27% is expected to be 3CW with 15% Canada Feed. In comparision, 86% of the high quality 1984 crop graded 1 or 2CW and only 4 1/2% Canada Feed.

Exports to late December were lagging 21% or 1.73 million tonnes behind year-ago levels for wheats other than Durum, partly as a result of prolonged labour disputes at Thunder Bay, Quebec City and the West Coast. Nearly 60% of the early season exports were 3CW or Canada Feed with much of these lower grades destined for the USSR. Despite this, Canadian wheat exports in 1986/87 will likely match or surpass the 1985/86 total of 17.4 million tonnes. Since late September, the export pace, particularly through the port of Prince Rupert has been well above year-ago levels. If exports of wheat, including Durum, reach 17.8 million tonnes, the 1986/87 Canadian wheat carryover would be approximately 15.8 million tonnes, more than 80% above the July 31, 1986 carryover. Approximately 45% of this carryover is expected to remain on-farm, although commercial stocks may also rise. Delivery requirements for Spring wheats may increase by about 1/2 million tonnes; however, quotas will remain fairly restrictive over the year.

Prices

The U.S. farmgate price for wheat is the lowest in 9 years despite a modest post-harvest recovery. Between mid-February 1985 and 1986, U.S. futures prices oscillated between U.S.$3.80 and $2.70/bu (C$193 and $137/tonne). It took a Russian nuclear reactor accident to return prices to the U.S.$3.60 (C$182/tonne) level this past April. By June, the beginning of the 1986/87 crop year, prices for the nearby contracts had fallen to the nominal loan rate level of U.S.$2.40 (C$122/tonne), with some contracts falling below the loan, returning only recently to U.S.$2.80-3.00 (C$142-152/tonne). The U.S. loan and reserve programs have removed approximately 75% of the U.S. domestic supplies from the market. However, large quantities are being returned to the market through advance deficiency payments to farmers. It appears then that the large U.S. supplies will prevent crop year prices from improving to any further extent aside from the possibility of a slight spring rally or a major crop failure. Instead, it is likely that Chicago prices will trend downward to around the 1987/88 loan rate of U.S.$2.28/bu (C$116/tonne). Neither the U.S. supply nor the export situation appears likely to lend any strength to U.S. prices in 1987/88.

Export incentive programs involving large subsidies by both the U.S. and the EEC have reduced wheat export prices below the U.S. loan rate for a growing proportion of world trade. In mid-December, U.S. wheat at east coast elevators was priced at U.S.$2.80-2.90/bushel (C$141-147/tonne), 20% below a year ago. At the same time, the U.S. government announced the sale of 185 000 tonnes of U.S. Soft White wheat to Egypt at U.S.$2.03/bushel or $74.50/tonne (C$103/tonne), including cost and freight, the equivalent of approximately U.S.$1.65/bushel or $60/tonne (C$83/tonne) at port. The bonus paid to exporters in the form of commodities from government-held stocks averaged U.S.$1.27/bushel or $46.71/tonne (C$64/tonne). The EEC has countered with "special subsidies" which recently have been more than double the sales value of the grain. In mid-October, the EEC sold 100 000 tonnes of wheat to Egypt at U.S.$1.82/bushel or $67/tonne (C$92/tonne) with a U.S.$3.35/bushel ($123.10/tonne) (C$170/tonne) restitution or subsidy.

During 1985/86, Canadian top-grade export price quotes were 5-6% higher than in 1984/85; No. 1CW Red Spring, 13.5% protein, averaged $225/tonne over the year, reaching a monthly average of nearly $250 in December. Despite this, the Canadian Wheat Board has indicated the 1985/86 pool is close to breaking even. Any final payment for 1985/86 is likely to be small and restricted to the top grades. On January 2, 1987, the published export price of Canadian 1CW Red Spring wheat was $184.41/tonne, basis the St. Lawrence, or approximately $160 at Thunder Bay. This compares to $272.19/tonne and $247.70/tonne a year ago. The 1987 published price of 3CWRS was only $15.60 lower than 1CWRS. An undisclosed amount of competitive price discounting has been necessary but, in addition, a large proportion of exports will consist of lower grades. In many ways, the 1986/87 situation is similar to but more severe than in 1985/86. The initial price for 1CWRS was reduced from $160/tonne in 1985/86 to $130 in 1986/87. However, a final payment for 1986/87 also appears unlikely. The world trade situation is not expected to improve in 1987/88. A further reduction of $10-30 in the initial payments for 1987/88 is a possibility with little current hope of a final payment.

DURUM WHEAT

Supplies

World Durum wheat production appears to have increased in 1986/87, along with the production of other wheats. A generally low world crop quality and low prices have

stimulated export purchasing. In the U.S., the 1986/87 Durum supply situation is similar to 1985/86. The 1986 U.S. crop totalled 2.5 million tonnes, 18% below 1985; however, the June 1 carryover was large. The U.S.D.A. expects domestic use and exports to increase 32%, reducing U.S. year-end carryover 26% to 2.4 million tonnes.

Canadian Durum yields recovered in 1986 to produce a crop of 4.6 million tonnes, a 1.8-2.1 million tonne increase over the previous two years. Manitoba's yields were not as high as in 1985 but, with a 50% increase in plantings, Manitoba's crop totalled 419 000 tonnes, an increase of 28%. Harvesting delays seriously damaged crop quality, as in 1985. Approximately 30% of the western Canadian crop is expected to grade No 4 or 5CW, which has little better than feed value. With the larger crop, exportable supplies should be adequate but the total export will still be limited by the availability of the top grades. If exports reach 1.8 million tonnes, a 30% increase over 1985/86, carryover is expected to rise to the 2 million tonne area. This is significantly above the 563 000 tonnes reported at July 31, 1986. Canadian exports of Durum will also have to compete with U.S. export enhancement (BICEP) sales of Durum, particularly into Algeria. Both Egypt and Algeria have been specifically targeted for wheat and wheat technology grants by the U.S. and EEC. In addition, Canadian Durum exports to the EEC are at some risk because of recent trade disagreements. Provisional countervailing duties have been imposed on imports of EEC pasta, with a final ruling to be made shortly.

Prices

The published export price of Canadian Durum wheat went from a $3 to a $30 discount to Red Spring during the course of 1985/86. By November, improved demand reversed the situation and provided a $12 premium. For November, 1CWAD averaged approximately $172/tonne basis Thunder Bay, compared to $215 the previous year. In late December, the CWB announced final payments for 1985/86 Durum ranging from $21.30/tonne for 1CWAD to only 22¢/tonne for 4CW. There was no final payment for 5CWAD.

Not only have Canadian export prices for Durum been 20-25% lower so far this year, they have been forced to compete with U.S. subsidies. Although Durum was not initially included in U.S. BICEP offers, sales have been targeted since the summer. In August, 500 000 tonnes of U.S. Durum were sold to Tunisia at U.S.$108/tonne (C$149/tonne), including freight, with a U.S.$16.46/tonne (C$23/tonne) bonus. By late October, 18 000 tonnes were sold to Yugoslavia for U.S.$90/tonne (C$124) FOB, with

a U.S.$29.76/tonne (C$41/tonne) bonus. Although the 1986/87 Canadian initial payment for 1CWAD was reduced to $130 from $160, it appears that a final payment will be dependent on the amount of discounting required. Without substantial discounting, the pool would likely be close to breakeven for 1986/87. As with Red Spring wheats, the initial price for 1987/88 Durum is expected to be reduced to $10-30/tonne.

OATS

Supplies

The U.S. is experiencing the tightest oat supply ever. The U.S. oat crop declined to 5.9 million tonnes, more than 25% below 1985. Year-end carryover is expected to decline 40% from 1985/86 to 1.7 million tonnes. The situation is further compounded by artificial shortages because of the U.S. storage programs. This should be partly alleviated by upcoming PIK redemptions.

Canadian oat supplies for 1986/87 are 30% higher than for 1985/86. Better yields and an increase in the harvested acreage resulted in a 3.9 million tonne crop. Manitoba harvested a 601 000 tonne crop, an 8% increase over 1985. Exports have been progressing well this year and by early December, they were nearly double the 44 000 tonne total recorded for 1985/86. With the exception of small quantities shipped to Japan, virtually all of Canada's oat exports are destined for the U.S.

In order to guarantee supplies for export, the Canadian Wheat Board initiated a contracting program for 1986/87 for straight grades of No. 1 and Extra No. 1 oats. This contract essentially guarantees a 64 bushel/acre quota to participants. The total Canadian oat carryover for 1986/87 is currently expected to surpass one million tonnes. Most of the stocks will remain on-farm. While Canadian oat plantings may decrease slightly in 1987, U.S. plantings are likely to increase.

Prices

In the U.S., the 1986/87 loan rate for oats was reduced to U.S.99¢/bushel (C$88/tonne); however, the tight U.S. supply has resulted in recent U.S. farmgate prices averaging U.S.$1.44/bushel (C$129/tonne). In U.S. cash markets, oats have been the only grain to improve over year-ago prices.

In Canada, the initial price of No. 1Feed oats for delivery to the Canadian Wheat Board was set at $100/tonne for 1985/86 but reduced to $75 for 1986/87. Designated oat prices were maintained at $130 for 1CW, basis Thunder Bay. The usual market

concerns of attracting sufficient good quality oat deliveries have helped to maintain local off-Board elevator prices above the CWB initial. For 1985/86, deliveries of Designated 1CW oats will receive a final payment of $20.25/tonne, with a $13.75 payment for 1Feed. The CWB has indicated however, that a final payment for regular pool oats for 1985/86 is questionable. Little or no final payment is currently expected for regular pool oats for 1986/87. For 1986/87, the final payment for Designated 1CW oats is expected to be approximately $10/tonne less than for 1985/86. All feed grain prices are expected to be under increasing pressure in 1987/88. As a result, the initial prices may be reduced a further $5-15/tonne for 1987/88.

BARLEY

Supplies

The world situation for all coarse grains remains one of growing surpluses and weakening prices. A U.S. production decline of 24 million tonnes was largely offset by increases in the USSR, China, eastern Europe and Canada. As a result, world coarse grain production for 1986/87 is expected to total nearly 837 million tonnes, a decline of less than 1%. World trade is expected to decline 2.5% in 1986/87, due in part to a shift towards the use of cheaper feed wheat in livestock rations. A 5.7 million tonne decline is expected in USSR coarse grain imports alone due to an estimated 108 million tonne harvest in 1986, 8 million tonnes more than in 1985. The EEC coarse grain crop declined 8% to 81.1 million tonnes. For 1986/87, the EEC-12 will remain the world's largest importer with 19.1 million tonnes of imports (21% of the world total), all but 4.6 million tonnes traded between members. The EEC-12 is, however, a net exporter as it will export 19.8 million tonnes of coarse grains. In addition to normal requirements, the EEC was to increase U.S. corn imports to compensate for Spain's shift from U.S. corn to levy-free EEC grains; however, purchases may depend on the January 31 outcome of U.S./EEC negotiations.

World barley production for 1986/87 is estimated at approximately 176 million tonnes, only 21% of total coarse grain production. In contrast, corn production accounts for approximately 479 million tonnes or 57% of the total. While world corn production declined 1.3% in 1986/87, barley production increased 1.8%. Barley was the only major U.S. crop to increase in 1986. U.S. barley exports, assisted by export incentives, are expected to increase to 2.2 million tonnes in 1986/87, nearly a 5-fold increase over the low levels of 1985/86. U.S. 1986/87 carryover is still expected to

reach record levels. The Australian barley crop is estimated at 3.5 million tonnes, compared to 4.9 million in 1985/86 and exports are expected to decline to 2.4 million tonnes, the lowest in four years.

The EEC barley crop is estimated at more than 46.5 million tonnes, an 8% decline from 1985/86. As a result, EEC barley exports are expected to reach only 6 million tonnes, down 24% from 1985/86. EEC barley imports are expected to more than double to 1/2 million tonnes in 1985/86. The two largest importers are expected to import less barley. Saudi Arabia alone accounts for 36% of world barley imports and is expected to import 6 1/2 million tonnes in 1986/87. Saudi Arabia, a major Canadian barley market, has been targeted by the U.S. for export incentive sales. The USSR was the world's major barley producer in 1986/87, with a 48 million tonne crop. The USSR is expected to import no more than 2.8 million tonnes of barley in 1986/87, compared to 3 million in 1985/86 and 4.7 million in 1984/85. Canada and the U.S. are expected to be the only exporters to increase their barley exports in 1986/87.

The 1987 U.S. feed grain program includes provisions for a 20% reduction in planted area. In addition, the U.S. will pay producers to voluntarily divert an additional 15% of their feed grain area for conservation purposes. Diversion payments will be U.S.$2.00/bushel (C$109/tonne) for corn and U.S.$1.60/bushel ($101/tonne) for barley. In comparison, the 1986 program included a 17 1/2% acreage reduction and a 2 1/2% paid diversion. For 1987, the U.S. loan rate for corn has been reduced 5% from U.S.$1.92/bushel (C$106/tonne) to U.S.$1.82/bushel (C$99/tonne) and from U.S.$1.57/bushel (C$101/tonne) to U.S.$1.49/bushel (C$94/tonne) for barley. Target prices have not been reduced and deficiency payments will be larger. Since producers may receive 40% of the estimated deficiency payment and half the diversion payment in advance, producer enrollment, which began in November, is expected to be high. Reductions in U.S. coarse grain plantings in 1987 are likely to be insufficient to prevent a further stock build-up. Outside North America, most producers will be attempting to maintain or increase coarse grain production.

Canada's barley crop reached a record 15.5 million tonnes in 1986, 21% above 1985. Manitoba's crop declined 26% to 1.87 million tonnes. But overall, the western crop increased 23%. Western crop quality appears only slightly less than in 1985. About 79% of the crop is expected to grade 1CW or Designated compared to 80% in 1985 and 85% in 1984.

Exports have progressed well so far this crop year, with large shipments destined for the USSR in the fall. Exports are expected to approach 5 million tonnes this crop

year, compared to 3.6 million in 1985/86. Consumption of domestic feed grains should increase during 1986/87. Supplies of feed quality grains have increased overall in both western and eastern Canada. In addition, the November 7th imposition of a U.S.$1.05/bushel (C$57.38/tonne) tariff on U.S. corn imports is expected to result in the use of domestic grains in lieu of imported corn. Canadian barley carryover is likely to surpass 5 million tonnes at the end of 1986/87, approximately 2 million tonnes more than at July 31, 1986. More than half of the carryover is expected to be on-farm. Deliveries and overall quotas for 1986/87 should be somewhat larger than in the previous crop year. For a second year, the Wheat Board is offering guaranteed delivery contracts for straight grades of No. 1 and 2CW barley.

Prices

U.S. and EEC subsidy programs have forced export barley prices to nominal levels. Between mid-April and late October, 1986, the U.S. offered to sell 2.36 million tonnes of highly subsidized barley and 260 000 tonnes of barley malt under the BICEP. During that period, Saudi Arabia alone purchased 1.25 million tonnes of barley at an average price of approximately C$85/tonne, landed in Saudi Arabia, or roughly C$37/tonne instore Thunder Bay. Bonuses paid to exporters in the form of government-held commodities amounted to nearly half the export value. While U.S. export prices slipped slightly in late October, the bonus on a sale to Cyprus amounted to 70% of the delivered price. While EEC minimum barley prices to the Mediterranean were quoted at approximately U.S.$86/tonne (C$118/tonne) in early September, "special subsidies" have been instituted to match or undercut U.S. prices.

Canadian barley sales to Japan were priced at $98/tonne, in store Vancouver, in September. Locational shortages of competing U.S. supplies in the Pacific Northwest again contributed to stronger export prices. By October, barley to Japan was priced at $115.80/tonne for December and January shipment. A year ago, comparable barley sales were at $124-133. Sales to other export markets, however, must compete with either subsidized or displaced wheat and barley supplies.

In December, the CWB confirmed that the 1985/86 regular barley pool suffered a deficit. Despite a reduction in the initial Wheat Board payment from $110/tonne for 1Feed in 1985/86 to $80 for comparable 1CW in 1986/87, a final payment is not expected for 1986/87. Off-board barley prices at Manitoba elevators averaged approximately $4 above the CWB initial during the first 5 months of the crop year. Prices have been slightly higher following the imposition of the corn tariff, but the prospect of large year-end supplies of all grains will likely prevent any substantial price

improvement. For 1985/86, Designated 2CW, 2Row barley received a final payment of $38.40/tonne for a total return of $203.40, basis Thunder Bay while 2CW, 6Row received a $28.40 final and a total of $183.40. For 1986/87, the Designated initial prices were maintained at $165 and $155. However, the final payment is likely to be only $23-28/tonne for 2CW, 2Row. With the lower U.S. loan rates and a world trade situation which is expected to be similar in 1987/88, initial CWB payments for regular pool barley could be reduced a further $10-20/tonne.

RYE

Supplies

Wet fall weather hampered Canadian fall rye planting in both 1985 and 1986. The 1986 fall rye area which was harvested declined 8.3% to 749,000 acres. Good yields still resulted in a 670 000 tonne crop, a 12% increase over 1985. As a result, crop year supplies at 987 000 tonnes are similar to 1985/86. Manitoba had the only combined area and yield decline. As a result, Manitoba's crop totalled only 74 000 tonnes in 1986 compared to 171 500 tonnes in 1985 and 195 800 tonnes in 1984. The 100 000 tonne decline in Manitoba's crop this year was more than offset by the increase in Alberta. Saskatchewan's crop also increased sharply. The rye crop is of better quality than in 1985 when considerable sprouting occurred. Exports have slowed and are expected to fall approximately 15% behind the 276 000 tonne export of 1985/86. Japan and Norway have become important markets this crop year. In the more price-conscious markets, such as South Korea, rye will be at a disadvantage to subsidized U.S. feed wheat. The Canadian carryover is expected to increase further to approximately 425 000 tonnes. Fall rye planting decreased 12%. With the larger carryover, 1987/88 Canadian rye supplies may not be substantially different from 1986/87.

Prices

The December, 1986 Canadian rye contract traded mostly in the $95-100/tonne range from mid-July, rallying only briefly in mid-September and mid-October. The tighter supplies of top quality rye in both 1985/86 and 1986/87 have resulted in domestic rye prices that have fluctuated around those of feed wheat. Both have declined since December, 1985. In the local market, demand for feed wheat is stronger. Over the first four months of the current crop year, rye prices at local elevators averaged approximately $60/tonne. This is 23% lower than last year, and nearly $24/tonne below comparable feed wheat prices. For 1987/88, rye prices will likely suffer at least 50% of any price declines in feed wheat. Barring reductions in yields, rye prices are likely to decline $5-$15/tonne in 1987/88.

FLAXSEED

Supplies

All five of the world's major flaxseed producers maintained or increased production for 1986/87. World production of flaxseed is now estimated by the U.S.D.A. at 2.69 million tonnes, a 10% increase over 1985/86 but less than earlier projected. European analysts peg the crop at 2.9 million tonnes, the highest since 1977/78. Heavy rains interrupted the Argentine harvest which began in December and it appears the crop may now be less than the 560 000 tonnes (a 17% increase) earlier projected. The U.S. crop was also smaller than expected, increasing less than 5% to 220 000 tonnes. India's crop is estimated at 450 000 tonnes, unchanged from 1985/86. The USSR crop is estimated at 210 000-230 000 tonnes.

Compounding the larger production is a world carryover from 1985/86 estimated at 336 000 tonnes, 91% of which was held by Canada. As a result, 1986/87 world supplies of flaxseed may have reached the unusually high level of 3.0-3.2 million tonnes, as much as 14% above 1985/86 and 21% above 1984/85. Lower prices have improved world trade prospects and world exports are expected to reach 850 000 tonnes, the highest since 1972. It appears the EEC may increase net flaxseed imports to well over 1/2 million tonnes. While most of the seed will be crushed, increased direct livestock feeding and increased product shipments into eastern Europe are also expected to result. U.S. imports are expected to increase from approximately 60 000 tonnes in 1985/86 to 80 000 tonnes in 1986/87. Mexico's imports are currently expected to decline nearly 50% to 20 000 tonnes. World linseed crushing is expected to be the highest in nearly a decade. Increased demand is not likely to match production, and therefore world flaxseed carryover, which is held mainly in Canada, is expected to rise. Despite increased use of linoil as an edible oil, year-end oil carryover is also likely to rise.

Large Canadian flaxseed supplies have been a major factor influencing flaxseed markets in 1986/87. Canada is the world's largest producer of flaxseed, producing nearly 40% of the world's crop. Manitoba, in turn, produced 55% of the Canadian crop and 22% of the estimated world production for 1986/87. The 1986/87 Canadian crop was a near-record at 1.07 million tonnes, 18% larger than 1985/86. Manitoba's crop totalled 584 000 tonnes, 4.5% larger than last year. The large carryover at July 31, 1986 resulted in a crop year supply of 1.37 million tonnes, compared to 1.05 million tonnes in 1985/86. Since there is little domestic use of flaxseed within Canada,

flaxseed is entirely dependent on the export market. Canadian exports are expected to approach 800 000 tonnes in 1986/87, compared to 622 000 tonnes in 1985/86. The major Canadian markets are the EEC, Japan and the U.S. Europe is expected to increase purchasing, with most of the seed originating in Canada. Direct exports to the U.S. could increase by as much as 50% but would still be well below 1983/84 and 1984/85 levels. By the end of 1986/87, Canadian flaxseed carryover will likely be in the area of 450 000 tonnes, close to 50% above July 31, 1986.

Prices

Flaxseed prices have followed the downward lead of the edible oil complex. Linoil prices in Europe plummeted from the December 1985 average of U.S.$518/tonne (C$725/tonne) to U.S.$315/tonne (C$435/tonne) by mid-December 1986, a 40% decline. Flax meal declined only 6% to U.S.$159/tonne (C$219/tonne) over the same period. In comparison, soyoil prices declined 31% from U.S.$470/tonne (C$658/tonne) to U.S.$324/tonne (C$447/tonne) over the same period and soymeal declined 1-2%. Pressure from large world oilseed and vegetable oil supplies, the ample Canadian flaxseed crop and the impending deliveries into Europe of freshly-crushed Argentine linoil has resulted in the unusual situation where linoil is at a discount to soyoil. In the past, this has caused some substitution of linoil for soyoil.

Like linoil, the price of Canadian flaxseed in Europe has declined sharply, dropping 33% from U.S.$250/tonne (C$350/tonne) to U.S.$170/tonne (C$235/tonne) over the year. Aside from brief harvest-time rallies, Canadian flaxseed futures prices have declined along with linoil. At the end of December, the March contract closed under C$210/tonne, down almost $110/tonne or 35% from the previous year.

At the Manitoba elevator, the price to the producer declined $20/tonne over the month of December alone. Over the first five months of the crop year, the price at the elevator averaged $184/tonne, $90/tonne below a year-ago. Edible oil prices are expected to show seasonal improvements in February-April. Linoil and flaxseed prices should follow, with linoil returning to a premium over soyoil. However, the increased supply will prevent any significant price strength. Flaxseed returns are still comparable to wheat, on average. As a result, world production may not decline sufficiently to allow prices to improve in 1987/88.

RAPESEED (CANOLA)

Supplies

World production of the major oilseeds is expected to reach 196.5 million tonnes

in 1986/87, according to the U.S.D.A.'s December estimates. This is only marginally higher than in 1985/86. World carryover, however, has been growing by 5 million tonnes per year since the end of 1983/84. As a result, supplies will reach the new record level of 222.4 million tonnes, 2.9% above 1985/86 and year-end carryover will approach 30 million tonnes. Among the major oilseeds, only cottonseed, sunflowerseed and olive crops are expected to decrease in 1986/87. Soybean production, which comprises 50% of all oilseeds is forecast at 98.8 million tonnes, 2.6% above last year. The declines in 1986 U.S. soybean production will likely be more than offset by increases from South America. Despite some delays in planting during November-January, the Brazilian soybean harvest is expected to reach at least 16.5 million tonnes after last year's drought-reduced 13.4 million tonne crop. In 1986/87, Brazilian exports of beans, oil and meal combined are expected to increase 23% over the previous year. Argentine soy production and exports are also expected to increase. Despite larger 1986 rapeseed and sunflowerseed crops in Europe, the U.S.D.A. is still anticipating EEC-12 imports of beans, oil and meal to remain at virtually the same level as in 1985/86, accounting for nearly 50% of world imports. World oilseed production is expected to increase in 1987/88, encouraged by the record high soybean to corn price relationship.

World rapeseed production levels have continued to rise and have reached a new high of 19.9-20.1 million tonnes in 1986/87, a 6% increase over 1985/86. This is much higher than earlier forecast. With the exception of France, all the major producers including China, Canada, India and Poland have increased production in 1986/87. China, the world's major producer, has increased production by 14% over the last three years to produce a crop of approximately 5.8 million tonnes in 1986/87. India's crop will be harvested January to April, but dry weather is expected to prevent an increase over 3% or a 3.1 million tonne crop. Eastern European production has increased 15% to 2.25 million tonnes while EEC production declined 2.6% to 3.59 million tonnes.

While the U.S.D.A. is expecting world trade in rapeseed to decline 4.8% from 3.54 million tonnes in 1985/86 to 3.37 million tonnes, European analysts are forecasting increased exports of 3.7% from 3.52 million tonnes to 3.65 million tonnes in the October-September period on the basis of increased Japanese, Mexican and net EEC imports. The major importers are few. The EEC accounts for about 55% of world rapeseed imports and 40% of the exports. Projections of a 12% increase in European net imports to 1/2 million tonnes, mainly from Poland and Canada, appear to be justified by fall purchases. Japan accounts for another 40% of world rapeseed imports.

It is expected to import 1.48 million tonnes of seed in 1986/87. More than 95% of Japanese imports of rapeseed originate in Canada. The EEC, however, has served notice that it intends to compete in the Japanese rapeseed market.

World crushing is expected to increase nearly 5% to the record level of approximately 17.6 million tonnes. Meal carryover is expected to increase only slightly but oil carryover is expected to decline as low prices encourage consumption.

Current indications are that 1987/88 world rapeseed supplies will increase. Fall plantings increased 41% in France and 31% in West Germany. Together, they account for 55-60% of EEC production. It appears that the EEC crop could increase at least 15-30% in 1987/88. Neither India nor China is likely to reverse the trend towards increased plantings. As a result, any production declines would have to originate in Eastern Europe, Canada or Australia. In addition, the U.S.D.A. is projecting the 1986/87 world rapeseed carryover to increase to 2.13 million tonnes, an increase of 55% over the 1985/86 level of 1.37 million.

The 1986 Canadian rapeseed (canola) crop increased 11% to 3.89 million tonnes. With the larger July 31 carryover, total crop-year supplies reached 4.87 million tonnes, an increase of 22%. In contrast, yield losses reduced Manitoba's crop 7.1% to 590 000 tonnes. For the second consecutive year, harvesting problems resulted in reduced grades. Only 57% of the western crop is expected to grade No. 1CW compared to 56% in 1985, and 83% in 1984. The average oil content of the crop appears to be even better than 1984, averaging 42-43% for all grades; however, the chlorophyll content is high due to the high proportion of immature seeds. Domestic crushing is expected to increase in 1986/87 because of increased oil exports, much of which are aid shipments to countries such as India. By mid-December, combined domestic and export utilization was 19% ahead of last year. Europe bought lower grade seed in the fall, but exports to Japan and Mexico have all been No. 1 or 2 grades. Exports are expected to reach approximately 1.70 million tonnes in 1986/87, compared to 1.46 million in 1985/86. Remaining stocks at year-end could increase to approximately 1.4 million tonnes, an increase of more than 40% by July 31, 1987. Much of the carryover is likely to be lower grade. With lower yields likely for 1987, the Canadian rapeseed area need only decline about 5% to prevent 1987/88 Canadian supplies from increasing.

Prices

Edible oil prices reversed their long-term downward trend in October showing some price strength through to early December. Much of these short-term

improvements were due to news of declines in the October to early December output of Malaysian palm oil as well as seasonal increases in vegetable oil consumption. By mid-December, most European oil and oilseed prices were still below year-ago levels although most meal prices were comparable. Soybeans were 6% below a year ago with soyoil down 31%. Coconut and palmkernel oils, however, were at or above year-ago levels. High prices for these lauric oils are expected to result in an increase in the use of cheaper oils such as soyoil and rapeoil. If lauric production and stocks continue to slump, vegetable oil prices should increase by February. Meal prices are expected to decline as crushings gear to oil demand. By April, prices will be depressed by the potentially larger Brazilian harvest.

Over the long-run, North American oilseed complex prices will fluctuate with changes in the U.S. loan rate, reserve and export programs. The loan rate for soybeans was reduced 5% from U.S.$5.02/bushel in 1985/86 to $4.77 in 1986/87 at which level it should remain for 1987/88, according to the 1985 Farm Bill. From 1988/89 onward, the loan will be set at 75% of the average market price in three of the previous five years. For 1988/89, therefore, the loan rate may be in the area of U.S.$4.50/bushel, a 6% decline from 1987/88. As a result, without program changes 1987/88 U.S. soybean prices will likely trend sharply downward by the spring of 1988. The effectiveness of the loan program as a price support may be increasingly offset by growing foreign supplies and by U.S. and EEC use of export incentives. In addition, it appears increasingly likely that U.S. budgetary pressures may result in a downward revision to the loan rate prior to 1988/89.

Canadian rapeseed prices have generally continued the long-term downtrend. Prices rallied from September to early November on harvesting concerns and international price improvements. They have since declined. At the end of December, 1986, the March rapeseed contract closed at $248.90/tonne, 25% below a year-ago. At the Manitoba elevator, the November price peak was equivalent to 1985/86's July low. Over the first five months of the crop year, local elevator prices averaged just under $200/tonne, 29% below the previous year. A seasonal spring recovery in the oilseed complex will be aided by tight domestic top-grade supplies of rapeseed, but it will be limited by the availability of lower grades and of competing oilseeds in export markets. Oilseed prices have declined more in 1986/87 than most had anticipated, due mainly to larger than expected production levels. Foreign government incentives are likely to maintain high levels of production, intensifying trade competition. In addition, palm oil production is likely to return to higher levels of output. Prices are not likely to

improve in 1987/88. Instead, average Canadian rapeseed prices for 1987/88 are expected to decline at least 10% on improved grade distributions and by at least 30% if the U.S. soybean loan rate is reduced or if EEC rapeseed export subsidies become widespread.

SUGAR BEETS

The 1986 Canadian sugar beet crop totalled 945 000 tonnes, compared to 400 000 tonnes in 1985 and 925 900 tonnes in 1984. In 1985 only Manitoba and Quebec produced sugar beets, but in 1986 only Manitoba and Alberta planted. Quebec ceased production of sugar beets entirely following the sale and closure of the government-owned Quebec sugar refinery. Manitoba harvested 27,200 acres of sugar beets for a total 1986 crop of 350 000 tonnes, an increase of 2% over 1985 due to slightly higher acreage and yields. The quality of the Manitoba crop was good and the sugar content could average 130-135 kilograms per tonne compared to 123.7 kilograms for the 1985 crop. Alberta produced a large, good quality crop, totalling 595 000 tonnes. Eastern refineries now handle only imported cane sugar.

Worldwide, sugar production and consumption are growing slowly. With no recent production shortfalls, the surplus stocks overhanging markets are nearly a 6-month supply according to the U.S.D.A. World centrifugal sugar production for 1986/87 is expected to total approximately 100.1 million tonnes, up 2% from 1985/86. With consumption at 99.7 million tonnes, the carryover is estimated to be 46.8 million tonnes. Of the major producing regions, only Europe, including the EEC and the USSR, harvested smaller 1986/87 sugar crops. North American sugar production has increased approximately 4%, with U.S. beet production alone up 8% over 1985.

U.S. sugar production is not likely to decrease in the near future, since U.S. producers are guaranteed a minimum price or loan rate of U.S.18¢/pound (C$68.50/125 kilograms) through to 1991. With stable to declining North American sugar consumption, North American import requirements will likely be reduced in 1986/87. In the U.S., import quotas are allocated on a country-by-country basis and import fees are charged. The U.S. has reduced its allowable imports for 1987 by nearly 50%. In addition, the U.S. has begun to dispose of surplus government-held stocks of raw and refined sugar for export and domestic food and ethanol use. In August, a subsidized sale of nearly 146 000 tonnes of raw U.S. sugar was made to China.

World sugar prices averaged U.S.8 1/3¢ (C11 2/3¢) in April on expectations of reduced production and a lower U.S. dollar. While current prices are still above the U.S.3¢ (C4 1/4¢) level of late spring, 1985, they are far below 1980 price levels when the yearly average peaked at U.S.29¢ (C34¢).

For the 1985 crop, the Province of Manitoba, the federal government and the Manitoba Sugar Co. agreed to guarantee Manitoba sugar beet producers a price of $45 per standard tonne. The Manitoba Sugar Co. agreed to pay a minimum price of $25 per standard tonne to producers, with the remaining $20 per standard tonne shared equally by provincial and federal governments. The actual sugar extraction rate for the 1985 crop was 123.7 kilograms per tonne of beets delivered, 99% of the standard 125 kilograms. Accordingly, the provincial government paid producers $9.90/tonne through interim payments in mid-December and mid-March and a final payment in November, 1986. Federal payments for the 1985 crop were made in July/August with a final payment in December, 1986. The Manitoba Sugar Co. paid producers a total of $24.74/tonne between November, 1985 and October, 1986.

For the 1986/87 crop, the federal government instituted an acreage incentive payment. The payment was based on the producer's 1986 seeded acreage and 4-year average production, and a $12.423 per standard tonne rate of assistance. The federal government also guaranteed, for the 1986 crop, a producer return of $46.05/standard tonne with a net producer payment of $45/standard tonne. Producers will be paying a $1.05/tonne premium. An interim payment is expected in January, 1987. At the time of delivery, the Manitoba Sugar Co. paid producers an initial price of $15.10/tonne compared to $15/tonne in 1985.

For 1987/88, the situation has not yet been resolved. Canadian Tariff Board hearings were convened in early December to review and assess the suitability of imposing a tariff or other restrictions on imported sugar. The Manitoba Government made a submission to the Tariff Board which stated that a tariff to support domestic producers would be preferable to import quotas. A new, comprehensive Canadian sugar policy is expected to be developed by the federal government and announced after mid-April.

SUNFLOWERSEED

Supplies

The 1986/87 world sunflowerseed crop is a near-record 18.9 million tonnes,

according to the U.S.D.A., only 2% smaller than the 1985/86 record crop of 19.4 million tonnes, solely as a result of increased European production. Total world production has increased 13% over the past four years. North American production declines along with increased production in the EEC and Argentina have lead to significant shifts in trading patterns over this period. The U.S.S.R. is still the largest sunseed producer at 4.6 million tonnes in 1986/87, compared to 5.2 million in 1985/86, and is also the largest importer of sunoil. Argentina, now the second largest producer, has doubled its output since 1981/82. The 1987 harvest is expected to reach 3.65 million tonnes after last year's record 4.1 million tonne crop. Argentina's sunseed exports have grown from minimal levels to 1/2 million tonnes in little more than three years. They now account for 24% of total world exports. In addition, Argentina now accounts for 45-50% of world sunoil exports (about 900 000 tonnes in 1986/87) and about 70% of world sunmeal exports. EEC-12 production has risen dramatically to 2.9 million tonnes in 1986/87, doubling over the last two years. France alone has increased production from 400 000 tonnes in 1981/82 to 1.68 million tonnes in 1986/87. As a result, European imports of sunseed declined to only 425 000 tonnes for 1985/86 and an estimated 472 000 tonnes for 1986/87. In the past, Europe was a major export market for both Canadian and U.S. sunflowerseed.

Only four years ago the U.S. was the world's second largest sunflowerseed producer. The U.S. has since reduced production by about 50%. The 1986/87 U.S. crop is estimated at 1.09 million tonnes compared to 1.43 million in 1985/86; however, the U.S. September 1, 1986, carryover may have totalled over 1/2 million tonnes according to the producers' association. The increased U.S. crush in 1985/86 was not sufficient to offset the decline in U.S. exports. U.S. sunseed exports are not expected to increase in 1986/87, while U.S. sunoil exports are expected to decline. Debt problems in Mexico are expected to prevent sunseed imports, which are mainly from the U.S., from increasing beyond the 400 000 tonne level. As a result, the U.S. crush is expected to decline almost 25% with the U.S. sunflower carryover increasing sharply by year-end. Both U.S. and Argentine sunflower production is expected to decline in 1987; however, European production will likely increase.

Canada's sunflowerseed production continued to decline into 1986/87, with the 1986 crop totalling only 52 700 tonnes compared to 82 100 in 1985. Manitoba produced a crop of 46 300 tonnes, a 40% decline from 1985. Saskatchewan produced a slightly larger 1986 crop of 6 400 tonnes. Manitoba's 1986 crop was of excellent quality with oil recovery expected to average 40-41% compared to approximately 35% in 1985.

Although some midge damage occurred again, Manitoba yields were generally good, averaging an estimated 1,275 pounds/acre (1 430 kilograms/hectare). Yields ranged up to 2,400 pounds (2 690 kilograms/hectare) in areas of the southeast. Much of the western sunflowerseed crop is crushed locally and consumed within Canada. In 1985/86, 15 900 tonnes of sunflowerseed were exported. Nearly 90% of these exports were to the U.S. with small amounts going to Europe, Taiwan, Japan, and Mexico. As a result of the low Manitoba production levels over recent years it was necessary to import increasing volumes of seed from the U.S. For 1985/86 at least, Canada was still a net exporter of sunseed but for 1986/87, Canada may become a net importer.

Prices

The larger European and Argentine production contributed to steady declines in international sunseed and oil prices during 1985/86. In Rotterdam, sunoil prices dipped to the U.S.$300/tonne level prior to harvest but by late December were around U.S.$330, $200/tonne below a year ago. Recent U.S. oil prices have been in the U.S.$360 area, basis New Orleans. U.S. prices have been higher than those in Europe mainly due to U.S. crushing plant demand and Mexican purchases early in the fall. As the close of Seaway shipping approached, early December sunseed prices at Duluth declined to the U.S.$149/tonne area (C$207/tonne).

Manitoba sunseed prices have been fairly flat since August at $160/tonne (7.3¢/pound) for the No. 3 base grade at the elevator. This compares to an average of $216/tonne (10¢/pound) for 1985/86 and $314/tonne (14¢/pound) for 1984/85. Prices at the Manitoba crusher continue to be approximately $25/tonne above the elevator level prior to freight and quality adjustments. In addition, producers can expect to receive a premium for oil content over 40% in 1986/87. With the reduced local supply, Manitoba sunseed prices will likely increase in the spring. Overall, the market situation for 1987/88 is not likely to be substantially different from 1986/87.

PULSE CROPS

With the exception of Pea or Navy beans, North American pulse crop production increased in 1986/87. Harvest delays saw potentially record 1986 White pea or Navy bean crops devastated in both Canada and the U.S. As a result, Navy bean prices have escalated this crop year with prices more than doubling to the $60/cwt ($1,323/tonne)

area. In contrast, lentil production increased sharply from the drought-reduced crops of the previous two years and prices have halved. Dry pea production also increased sharply in both Canada and the U.S.; however, European production was reduced. Export food aid purchasing is expected to continue as a major supporting factor in both Canada and the U.S. Special crop contracting began in December, much earlier than usual. Considerable producer interest in special crops is to be expected, despite weakening mid-winter contract prices.

Peas

Supplies

In the U.S., the 1986 dry pea crop reached 158 200 tonnes, an increase of 21% over 1985 due to a continuation of increased area and yield. The U.S. Yellow pea crop increased 6.7% over 1985 but accounts for only 8.5% of total 1986 acreage and production. Pea crops in France and Denmark suffered from hot, dry weather this year with yields decreasing and bleaching increasing. As a result, western Europe is not expected to compete well in the Cuban/U.S.S.R. purchasing this year. Eastern European selling prices this fall were well above world levels. Australia, however, has become an important competitor, particularly for sales to India.

The 1986 Canadian pea crop totalled an estimated 223 500 tonnes, up 31% from 1985 and 68% above 1984. Manitoba's crop yielded only 25 bushels/acre in 1986, down substantially from 37 bushels in 1985. As a result, Manitoba's production increased only 11% despite a 60% increase in plantings to approximately 160,000 acres. In 1986, Manitoba produced 111 600 tonnes, 50% of the Canadian crop. Wet weather in the fall of 1986 improved crop quality over 1985 by delaying harvesting. Late spring rains had caused uneven germination and maturation but later-harvested crops contained less immature seed. Crop quality was therefore better than early harvestings indicated and, as a result, lower quality seed was in short supply.

Some better quality Canadian No. 2 seed was shipped to meet feed pea orders from Europe. Early fall sales were brisk. India bought approximately 10 000 tonnes. Cuba reportedly purchased 20-25 000 tonnes with more purchases anticipated in the spring of 1987. In addition, the Canadian International Development Agency (CIDA) has already purchased peas for famine relief under the World Food Program. During the 1985/86 fiscal year, CIDA exported 4 625 tonnes of Canadian peas, mainly to Sri Lanka, Pakistan, Bangladesh, Yemen and Mozambique. In comparison, total pea exports for

the September, 1985 to August, 1986 period totalled 123 662 tonnes, with 89 554 tonnes in 1984/85. Imports included seed and Yellow peas and totalled 5 809 tonnes and 6 956 tonnes for the same periods. Despite the larger 1986 crop, the spring demand is generally expected to be sufficient to prevent the carryover from increasing significantly.

Prices

In early August, Canadian peas were priced at about $4.80/bushel ($176/tonne) delivered to northern Europe. However, Manitoba producer spot prices for Century peas increased from the $4.75/bushel ($175/tonne) area at harvest to approximately $6.00 ($220) by late December. Manitoba dealer prices for the month of November were still approximately 18% below year-ago levels, in the $6.60-7.35/bushel ($242-270/tonne) range. Pea prices normally slump in the mid-winter but, with the larger supplies, price strength will be conditional on sales. Special crop contracting for 1987 began in mid-December due mainly to heavy producer interest. It appears that the 1987 pea area may be larger than in 1985.

Lentils

Supplies

In contrast to 1985/86, many of the world's major lentil exporters produced larger 1986/87 crops. The U.S. lentil crop more than doubled in 1986 to a crop of 81 000 tonnes on 161,220 acres. The quality was good and yields above average. The lower prices, however, have resulted in light producer selling. While no recent U.S. aid purchases of lentils have been reported, large purchases for Egypt were instrumental in price increases last fall. Once a major exporter of lentils, Egypt has reportedly been suffering production set-backs due to lower water levels. Large aid shipments to Egypt in 1986/87 are therefore possible. France has reportedly harvested a lower than expected crop and may increase purchases of Canadian lentils.

In addition to the U.S., export competition also comes from Turkey, China and Chile. Reports indicate a large lentil crop in Turkey with about 450-550 000 tonnes of Red lentils and 70-80 000 tonnes of Blonde or Green lentils, compared to a total crop of 450 000 tonnes in 1985, a dry year, and the 650 000 tonne peak of 1983. In 1985/86, the low Turkish deliveries forced Mideast pulse buyers into other markets. This is less likely to occur this crop year. China has recently become an important competitor in the European market. In August, China was selling old-crop lentils 23% below new-crop Canadian and 35% below U.S. prices.

Canadian lentil production totalled 182 400 tonnes in 1986, compared to 65 200 tonnes in 1985 and 38 900 tonnes in 1984. After two consecutively poor, drought-stricken crops, Saskatchewan harvested a good quality crop of nearly 150 000 tonnes. Manitoba's crop amounted to 30 400 tonnes, only 59% above the 1985 crop despite a doubling in the planted area to 65,000 acres. Wet weather caused some disease and subsequent quality problems in the Manitoba crop. While Manitoba's crop may average in the No. 2 to Extra No. 3 grades, an unusually high proportion will likely grade No. 3. Because of the tight supply situation which has persisted over the last few years, any increase in the 1986/87 Canadian carryover is expected to be small but of lower grade.

Harvesting delays and a September purchase of Canadian lentils by Germany boosted both Canadian and U.S. new-crop lentil prices temporarily. Local prices to the producer rose briefly to the 30¢ area but, under pressure from larger domestic and foreign supplies, have since fallen to the 19¢/pound ($419/tonne) area for Estons, 21¢/pound ($463/tonne) for Chileans, including Lairds, with quality discounts of approximately 3¢/pound ($66/tonne) for Extra No. 3 and 5¢/pound ($110/tonne) for No. 3. At the dealer level, lentil prices were U.S.$40-50/cwt (C$1,216-1,433/tonne) for virtually the entire 1985/86 crop year, but dropped 50% for the 1986 crop. Early contract prices for 1987 indicate at least a further 2-3¢/pound ($44-66/tonne) price decrease to the producer. Producer interest for 1987 appears strong, and 1987/88 plantings and carryovers are likely to increase.

Dry Beans

Over the last few years, northern U.S. bean planting and harvesting has reportedly been later than usual and losses have been high. However, losses were extreme in 1986 in the northern states and primarily in Navy (or Pea) beans. Coloured bean production appears high in both North and South America. The total U.S. bean area for harvest increased 11%; however, total production increased less than 3% to 1 034 000 tonnes (22.8 million cwt), with all producing states but Michigan, California and Washington increasing output. The U.S. Pinto bean crop increased 34% over 1985 to total 456 000 tonnes. Black Turtle beans which are grown in Michigan and New York increased nearly 4-fold to 32 160 tonnes. Pinks increased 41% to 52 160 tonnes. The Navy bean crop, however, was nearly halved to 160 000 tonnes and, with the old-crop Navy bean carryover low in both Canada and the U.S., the supply situation is tight and prices high.

Aside from continuing Canadian and U.S. government aid and European purchases, coloured bean markets will remain competitive and potentially volatile in contrast to Navy beans. The southern hemisphere provides much of the coloured bean market.

Many of the Latin American and African countries, however, are suffering from continuing economic problems. Both Mexico and Kenya have or are expecting larger crops. Kenya is expected to compete in the African market this year with 40 000 tonnes of supply, rather than importing. Mexico is expecting a total 1986/87 bean crop of 1.2 million tonnes from both fall, 1986 and spring, 1987 planting and has announced it will not import beans in 1987. At present, Mexico is attempting to restrain retail prices by maintaining the producer support price at only C16.5¢/pound (C$365/tonne). Brazil has also frozen the retail price and has prevented an import price beyond U.S.$350/tonne (C22¢/pound) C&F, which is still below world prices. Any shortfalls in either Mexico or Brazil would not likely cause purchasing until late spring. Argentina, however, has a crop of approximately 240 000 tonnes, about the same as last year, but Black beans now account for half the crop, adding to U.S. production increases. Argentina has reduced its export tax on beans by 1/3 and should again export approximately 85% of production.

In Ontario, the area planted to Navy beans increased 26% over 1985 and expectations were for a 90 720 tonne (2 mln cwt) crop. Record September and October rainfall reduced the crop to approximately 41 000 tonnes (900 000 cwt), and caused discolouration. By the end of November, 83% of the Ontario crop had already been sold. Year-end carryover should again be minimal. Ontario producer returns were expected to be over 40¢/lb. ($882/tonne), compared to approximately 24¢ ($530/tonne) over the last two years. On the Prairies, the dry bean area increased by more than a third to total approximately 28,300 acres in 1986 with 16,000 acres in Manitoba and 12,300 acres in Alberta. On the Prairies, production of all dry beans totalled approximately 16 000 tonnes, an increase of 40% from 1985. Aside from fababeans, western dry bean production is almost entirely coloured beans. With both U.S. and Canadian supplies improved, dealer prices are slightly weaker than a year-ago, in contrast to the Navy bean situation. Bean harvesting was hampered by rain in both Canada and the northern U.S.

For further information on all crops please contact:
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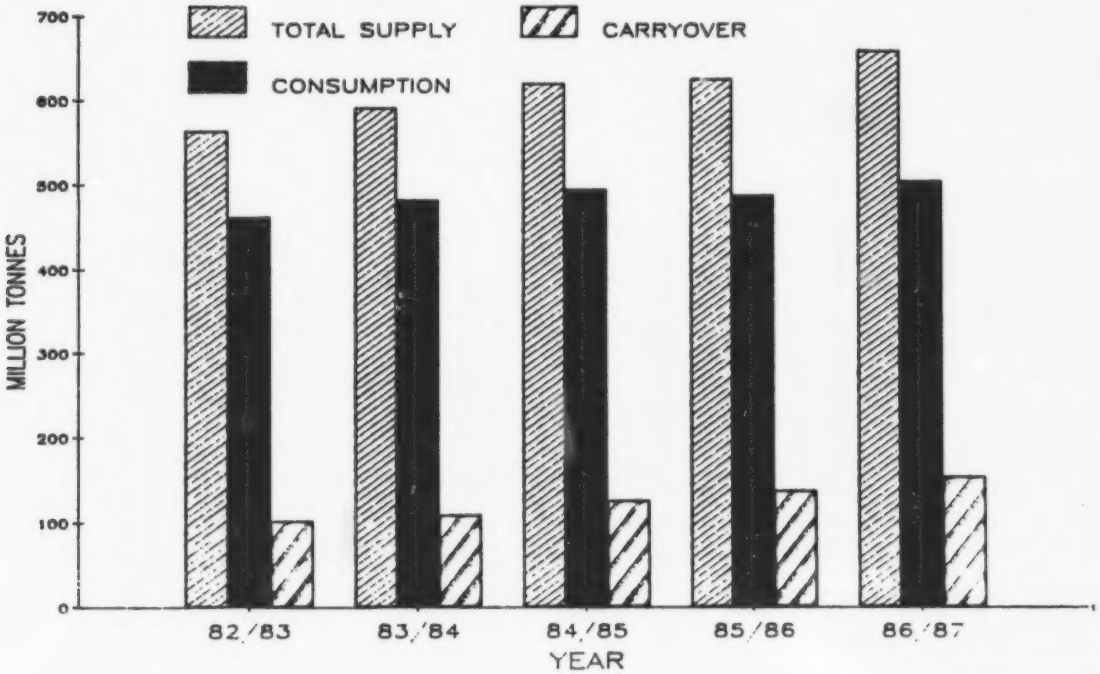
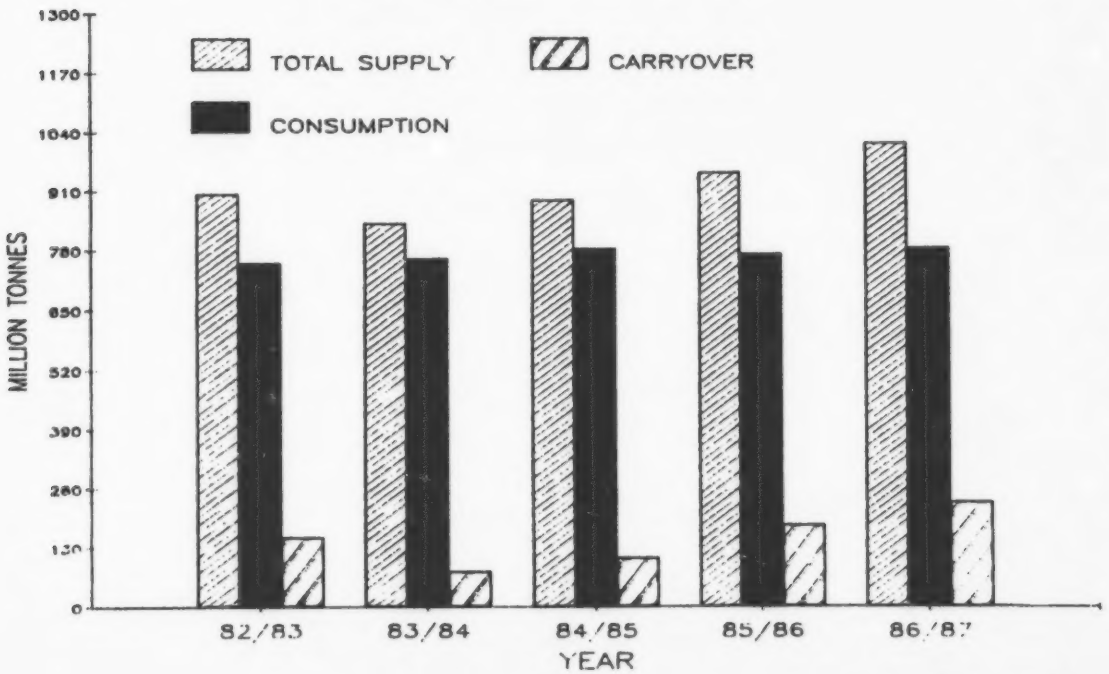
WORLD WHEAT SITUATION
1982/83-1986/87



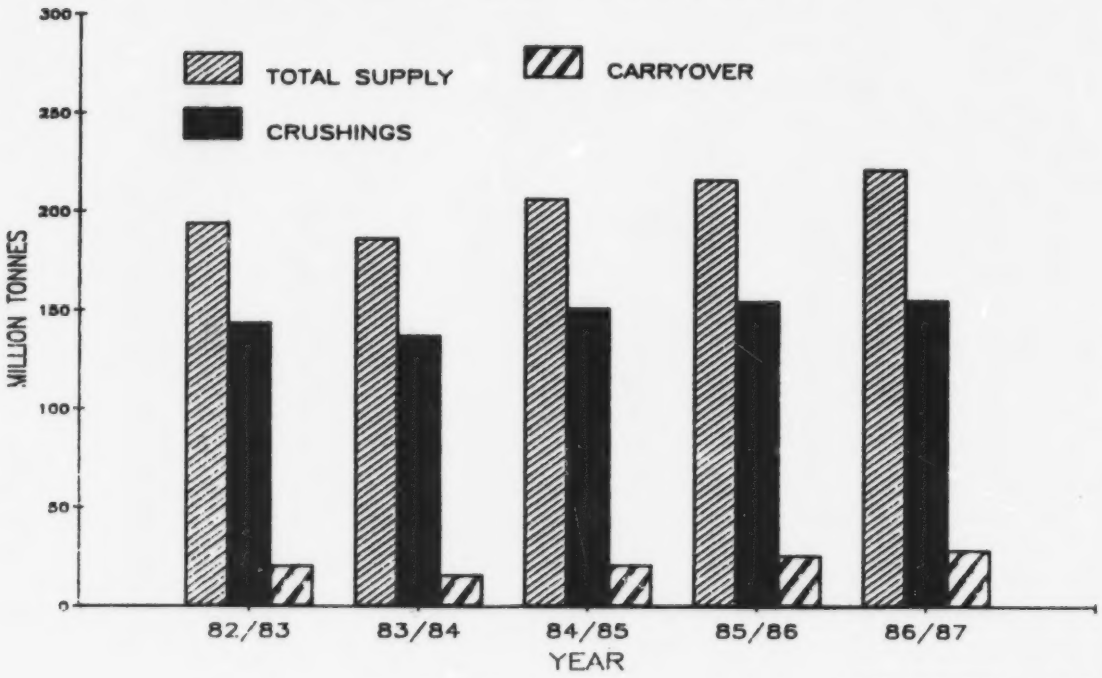
DATA SOURCE: U.S.D.A.

WORLD COARSE GRAINS SITUATION
1982/83-1986/87



DATA SOURCE: U.S.D.A.

WORLD OILSEEDS SITUATION
1982/83-1986/87



DATA SOURCE: U.S.D.A.

CANADA

SITUATION AND OUTLOOK FOR THE MAJOR GRAINS AND OILSEEDS

	Spring Wheat[1]		Durum Wheat		All Wheat	
	1985/86[P]	1986/87[E]	1985/86[P]	1986/87[E]	1985/86[P]	1986/87[E]
Area Harv. ('000 ac)	29,626.0	30,479.0	4,300.0	4,650.0	33,926.0	35,129.0
Yield (bu/ac)	27.7	33.5	16.7	32.0	26.3	33.3
Stocks, Aug 1 (000 t)	7 074.0	7 888.0	524.0	563.0	7 598.0	8 451.0
Production	22 295.3	27 804.8	1 957.0	4 045.0	24 252.3	31 849.8
TOTAL SUPPLY	29 369.3	35 692.8	2 481.0	4 608.0	31 850.3	40 300.8
Exports	15 970.0	16 000.0	1 385.0	1 800.0	17 355.0	17 800.0
Commercial Dom.	2 988.2	3 200.0	236.7	275.0	3 224.9	3 475.0
Other Domestic	2 523.1	2 692.8	296.3	533.0	2 819.4	3 225.8
TOTAL DOMESTIC	5 511.3	5 892.8	533.0	808.0	6 044.3	6 700.8
TOTAL CARRYOVER	7 888.0	13 800.0	563.0	2 000.0	8 451.0	15 800.0
- on Farms	700.0	6 100.0	70.0	1 100.0	770.0	7 200.0
- commercial	7 188.0	7 700.0	493.0	900.0	7 681.0	8 600.0
(marketings)	(19 957.0)	(19 700.0)	(1 696.0)	(2 450.0)	(21 653.0)	(22 150.0)

	Oats		Barley		Rye	
Area Harv. (000 ac)	3,487.0	3,843.0	11,793.0	12,235.0	919.0	842.0
Yield (bu/ac)	55.7	65.9	48.5	56.4	25.6	31.3
Stocks, Aug 1 (000 t)	619.0	814.0	2 156.0	3 230.0	383.1	317.0
Production	2 997.1	3 906.3	12 443.3	15 025.6	598.0	670.1
Imports	-	-	6.0	-	-	-
TOTAL SUPPLY	3 616.1	4 720.3	14 605.3	18 255.6	981.1	987.1
Exports	44.0	150.0	3 592.0	5 000.0	276.0	230.0
Commercial Dom.	209.5	175.0	1 768.0	1 750.0	81.0	50.0
Other Domestic	2 548.6	3 295.3	6 015.3	6 405.6	307.1	282.1
TOTAL DOMESTIC	2 758.1	3 470.3	7 783.3	8 155.6	388.1	332.1
TOTAL CARRYOVER	814.0	1 100.0	3 230.0	5 100.0	317.0	425.0
- on Farms	635.0	900.0	1 095.0	2 600.0	160.0	250.0
- commercial	179.0	200.0	2 135.0	2 500.0	157.0	175.0
(marketings)	(316.7)	(350.0)	(6 491.0)	(7 100.0)	(246.7)	(275.0)

	Flaxseed		Rapeseed		Total	
Area Harv. (000 ac)	1,830.0	1,990.0	6,925.0	6,860.0	58,880.0	60,889.0
Yield (bu/ac)	19.4	21.1	22.3	25.0	-	-
Stocks, Aug. 1 (000 t)	144.2	305.0	470.0	979.0	11 370.3	14 096.0
Production	901.9	1 066.8	3 507.8	3 886.9	44 700.4	56 405.5
Imports	-	-	11.0	10.0	17.0	10.0
TOTAL SUPPLY	1 046.1	1 371.8	3 988.8	4 875.9	56 087.7	70 511.5
Exports	622.0	790.0	1 455.7	1 700.0	23 344.7	25 670.0
Commercial Dom.	43.7	20.0	1 255.8	1 375.0	6 582.9	6 845.0
Other Domestic	75.4	111.8	298.3	400.9	12 064.1	13 721.5
TOTAL DOMESTIC	119.1	131.8	1 554.1	1 775.9	18 647.0	20 566.5
TOTAL CARRYOVER	305.0	450.0	979.0	1 400.0	14 096.0	24 275.0
- on farms	75.0	200.0	270.0	600.0	3 005.0	11 750.0
- commercial	230.0	250.0	709.0	800.0	11 091.0	12 525.0
(marketings)	(703.3)	(750.0)	(2 988.4)	(3 100.0)	(32 399.1)	(33 725.0)

[P] Preliminary. [E] Estimated. [1] Includes Winter wheat.
SOURCE: Statistics Canada, Canadian Grain Commission, Author's Estimates.

MANITOBA FARM INCOME SITUATION (1986) AND OUTLOOK (1987)

SUMMARY HIGHLIGHTS

MANITOBA 1986 SITUATION

Realized net farm income is estimated to increase by 25 percent over 1985 to $460.0 million.

Total farm receipts are estimated to increase by 3 percent over 1985 to $2.06 billion. Of this, crop receipts will increase by 2 percent and livestock receipts by 6 percent over their respective 1985 values.

Farm operating expenses and depreciation charges are estimated to decline by 2 percent below the 1985 value of $1.65 billion.

MANITOBA 1987 OUTLOOK

With the current available information, including the impact of the Special Canadian Grains Program Subsidy, prospects are for a reduction of 21 percent in realized net income in 1987. The projected realized net income is expected to be $362.0 million.

Total farm receipts are projected to decline by 5 percent with crop receipts falling by 21 percent while livestock receipts will be expected to rise by 4 percent.

Other cash receipts will be increased very significantly due to the Special Canadian Grains Program Subsidy. Manitoba is expected to receive a gross amount of $151 million.

Farm expenses and depreciation charges are expected to remain at the 1986 level.

1986 FARM INCOME SITUATION

CROP RECEIPTS

Total crop receipts are estimated to increase to $1.275 billion in 1986, representing a rise of 2 percent over 1985, (see Table 1). This rise was dominated by a 45 percent jump in miscellaneous payments from $159.56 million in 1985 to $232.15 million in 1986. The bulk of the change resulted from a 72 percent increase in payments under the Western Grain Stabilization Act and a 55 percent increase in C.W.B. Advance Payments.

Increased marketings of wheat, in spite of low prices, resulted in a 1.4 percent rise in its contribution to crop receipts, going from 41.4 percent in 1985 to 42.8 percent in 1986. In addition to wheat, only oats (up by 11 percent), sugar beets (up by 7 percent), potatoes (up by 6 percent) and vegetables (up by 7 percent) are expected to show increases in cash receipts.

By comparison, severe declines in the global price of coarse grains have caused a reduction in the cash receipts of barley. Barley prices in 1986, on the average, declined by 17 percent. The result was a drop in its farm cash receipts by 8 percent. This was prevented from dropping further by an additional 18 percent in the quantity marketed.

Rye, flaxseed and canola/rapeseed receipts all declined in 1986 relative to 1985. Rye receipts fell 37 percent, the result of a combination of depressed prices and lowered marketings. Flaxseed receipts dropped from $123 million to $81 million and canola/rapeseed receipts fell by 6 percent. A 29 percent increase in canola/rapeseed marketings was insufficient to completely negate the impact of an approximate decline of 27 percent in prices.

Cash receipts from corn tumbled to 44 percent of 1985, the result of a 48 percent reduction in quantity marketed and a 16 percent decline in price. This was the end result of a 50 percent decline in area of production in 1986.

Increased harvest, combined with deficiency support payments from both levels of government, are responsible for the increase in sugar beet receipts. Similarly, larger harvested production and increased marketings and prices have combined to push up potato receipts by 6 percent. Increased plantings and generally good prices have resulted in vegetable receipts climbing by 7 percent over 1985.

LIVESTOCK AND ANIMAL PRODUCTS

Total receipts from livestock are estimated at $757.43 million in 1986. This is a 6 percent rise over 1985, (see Table 1).

For 1986, receipts from cattle and calves are expected to decline 2 percent below 1985. Cattle slaughterings were up 3 percent over 1985 but because of an increase in the average carcass weights and essentially the same average prices as 1985, receipts from slaughterings rose 4 percent. But a drop of about 28 percent in the international movement of cattle in 1986 was not compensated by the increase in cattle slaughter and lead to a 5 percent reduction in cattle marketings. The net result was a 2 percent drop in cattle cash receipts in 1986 relative to 1985.

The number of calves slaughtered declined by 15 percent while slaughtered weight declined by 16 percent. When these are combined with an increase of 1 percent in the 1986 average prices, the result is a 15 percent drop in (slaughtered calves) receipts. The interprovincial movement of calves dropped by 7 percent while international movement almost disappeared; it fell by 81 percent. Overall, the total number of calves marketed dropped by 10 percent and a 1 percent rise in calves receipts resulted.

The number of hogs marketed in 1986 dropped 2 percent below 1985 and represented a 1 percent decline in marketed weights. However, a 26 percent jump in average price pushed up hog receipts by 24 percent over 1985.

The combination of sheep and lambs generated cash receipts in 1986 that were 2 percent below 1985. The amount of sheep meat marketed increased by 7 percent and prices rose by 4 percent so that there was an 11 percent betterment of farm cash receipts. Lambs, however, showed a drop of 3 percent in lamb meat sold. Lamb prices rose 1 percent. The result was that farm cash receipts for lambs fell 2 percent below 1985.

Cash receipts from dairy products increased by 2 percent. This increase depended on the utilization of the milk. Thus, fluid milk utilization went up by 2 percent with prices relatively constant and caused a 2 percent rise in farm cash receipts. Industrial milk utilization was about 1 percent below 1985 but prices rose 2.5 percent resulting in a 2 percent increase in its cash receipts. Cream utilization fell 3 percent while prices rose by 2.5 percent, the net result being a 1 percent fall in its cash receipts.

Poultry farm cash receipts fell 2 percent with a reduction of marketings to 97 percent of 1985. Within the sub-sector of poultry meat sold - hens and chicken

declined by 5 percent and with average prices essentially the same as in 1985, there was a 4 percent decrease in its cash receipts. The quantity of turkey meat sold rose by 3 percent in 1986, and together with a price drop of 2 percent, resulted in a 1 percent rise in its cash receipts.

Cash receipts from egg sales are expected to show a 3 percent drop in 1986, reflecting essentially the same total utilization but a drop of 3 percent in price.

The other livestock receipts are expected to show a 4 percent rise over 1985. Table 3 shows the contributions to total livestock receipts made by the different components.

OTHER CASH RECEIPTS

Provincial income supports, dairy and other supplementary and deficiency payments are expected to drop some 28 percent. This reduction is mainly due to a decline of 73 percent in provincial support.

Smaller payments were made to beef and hog producers under provincial stabilization. This reflects the higher livestock prices in 1986 and lower support levels which have declined due to lower feed prices.

FARM EXPENSES

It is estimated that total farm expenses in 1986 will reach $1,616.5 million, 2 percent below the 1985 level of $1,646.6 million, (see Table 5).

The decrease in expenses is due to the differential changes in individual expense items. Thus, property taxes, wages, other livestock expenses, building repairs, interest on debt, electricity and telephone and miscellaneous expenses increased over 1985. While the total increase of the latter set amounted to $11.3 million, the largest single monetary increase in expenditures resulted from depreciation charges on machinery which increased a total of $9.7 million or 4 percent.

The increase in expenses identified above was countered by reductions in significant areas of costs. By far the most significant contributor to cost reductions in 1986 was feed cost. This fall, amounting to $17.2 million, represented a 14 percent

decline below 1985. This was a direct result of depressed grain prices — a consequence of the agricultural trade war between the two giants - E.E.C. and U.S.A., and the U.S.A. domestic farm policy.

Fertilizer input costs fell by $14.2 million, 7 percent below 1985. This reduction is a result of declines of approximately 2 percent in usage but more importantly due to a fall of approximately 4 percent in price. Plant protection costs also declined by 4 percent resulting from less utilization.

Total machinery expenses were reduced by 3 percent. Although repairs and associated costs jumped by 5 percent due to increased amounts and increased prices of labour and materials, the combination of a marginal reduction of 1 percent in the quantity of fuel used and a 6 percent drop in the fuel price generated a 7 percent fall in fuel expenses. The latter was large enough to counteract the 5 percent increase in repairs and held down total machinery costs.

Farm expenses on gross farm rent also fell by 4 percent. Activity on the land rent market increased in 1986. But, depressed prices of farm commodities and farm land forced rental prices down to culminate in the expected reduction of costs.

REALIZED NET INCOME

The 3 percent increase in total farm receipts and a 2 percent reduction in total farm expenses when combined with a 6 percent increment in value of production used on farms translate into a realized net income of $460.0 million for Manitoba in 1986.

This amount represents a record for Manitoba and is 25 percent more than the 1985 value of $368.1 million and 30 percent above 1984. This means that, on the simple average basis, and in nominal terms, each Manitoba farm can expect $16,028 in realized net income, (see Table 8).

1987 FARM INCOME OUTLOOK

CROP RECEIPTS

Total crop receipts for 1987 are projected at $1.01 billion, representing a 21 percent slide relative to 1986. The major reduction comes from wheat, the contribution of which plummets to 36 percent of total crop receipts from 43 percent in 1986. Barley receipts are also forecast to drop in 1987. Its contribution to total crop receipts will fall to 9.1 percent compared to 11.0 percent in 1986, (see Tables 1 and 2).

The above implies that receipts from wheat and barley (including C.W.B. payments) in 1987 are each expected to drop by over 30 percent from 1986 levels. These outcomes are based on expectations that the grain market outlook is for excess global production with accompanying contraction in world trade.

Marketings of wheat and barley in 1987 are projected to fall by 9 and 8 percent respectively. The combination of reduced markets and C.W.B. price declines of about 19 percent for wheat and 26 percent for barley will account for the reduced returns to wheat and barley in 1987.

The fall in crop receipts expected for 1987 could be softened by government supports. Where supports made up 18.2 percent of crop receipts in 1986, their contribution is forecast at 23.2 percent in 1987. The contribution of other crops are forecast to rise by 3 percent over 1987.

LIVESTOCK RECEIPTS

As revealed in Table 1, Manitoba's livestock and animal products sector is expected to generate about $785 million in receipts in 1987, representing a 4 percent increase over 1986. Hog receipts are projected to rise by about 7 percent over 1986. This will be the result of an approximately 5 percent increase in total marketings and a 1.5 percent rise in prices - a benefit from strong prices in the U.S.A. This anticipated increase in hog receipts reflects itself in the rising trend seen in its contribution to total livestock farm receipts - 32.8 percent in 1987 compared to 31.8 percent in 1986, (see Table 3).

Receipts from cattle and calves are forecast to rise by 3 percent over 1986. This will result from expected declines of about 4 percent in marketings and the accompanying marginal strengthening in prices.

Receipts from dairy are forecast to climb by about 2 percent mainly due to approximately a 2 percent rise in the quantity of fluid milk sold and a 1 percent rise in its price. The industrial component is forecast to maintain its utilization at the 1986 level but its price is expected to be increased by approximately 2 percent. On the other hand, cream is expected to show a 3 percent decline in use with its price increasing by approximately 2 percent.

Poultry receipts are also expected to increase by 3 percent, a result of an expected 4 percent increase in marketings. The latter will counteract an anticipated decline of 2 percent in average prices. Egg receipts are forecast to show a fall of 4 percent primarily due to a decline in prices of about 4 percent. Honey cash receipts are slated to fall by 2 percent due to expected reduction in honey and beeswax production and some fall in the price of beeswax.

OTHER CASH RECEIPTS

A 637 percent increase in other cash receipts is forecast for 1987. Provincial income supports are forecast to drop to only 7 percent of its 1986 value reflecting mainly the termination of the Hog Stabilization Program and the rise in beef prices above support levels. Deficiency payments under the Agricultural Stabilization Act may be reduced by 15 percent while supplementary payments may fall to 16 percent of 1986. The major increase is due to the $151 million payment to Manitoba farmers under the Special Canadian Grains Program.

FARM EXPENSES

Present prospects for input costs suggest that total farm operating expenses and depreciation charges for Manitoba in 1987 will essentially maintain the level reached in 1986. A total of $1,615 million is the forecast cost for 1987 compared to $1,616 million in 1986 (see Table 5).

On the negative side, taxes (up 3 percent), rent (up 4 percent), wages (up 5 percent), total machinery costs (up 5 percent), other livestock expenses (up 5 percent), electricity and telephone (up 3 percent) and repairs to buildings (up 2 percent) are forecast to increase. Depreciation charges are expected to increase marginally by 1 percent.

From a positive point of view, a marginal decline of approximately 1 percent in fertilizer and no increase in other crop expenses are forecast for 1987. More significant are the forecast declines of 13 percent in feed expenses, 6 percent in interest charges and 4 percent in miscellaneous expenses.

The latter will exercise a strong enough impact to negate the cost increases outlined before and hold down expenses to the 1986 level.

Table 7 reveals that the most significant factors in holding the line on farm expenses in 1987 will be interest costs and costs of feed and other livestock expenses. The contribution of interest costs to total farm expenses is expected to be 9.4 percent in 1987, well below the 11.3 percent average for the previous six years and the lowest over the 1981-87 period. Feed and other livestock expenses will amount to 7.3 percent of the total in 1987. This is also well below the 1981-86 average of 9.4 percent.

REALIZED NET INCOME

Total farm receipts are forecast at $1,959 million, a drop of 5 percent below 1986. This will be the culmination of a 21 percent drop in crop receipts, a 4 percent rise in livestock receipts and a 637 percent increase in other cash receipts. The latter represents an expected payment of $151 million under the Special Canadian Grains subsidy. When combined with essentially no expected change in total operating expenses and depreciation charges, the result is a forecast realized net income of $362.0 million. This represents a 21 percent decline below 1986. Table 6 shows the income summary for 1985-1987 and Figure 6 presents the farm income summary for 1981 to 1987. The average realized net income per farm is forecast at $12,613. This is a decline of 21 percent below 1986, 2 percent less than 1985 but 3 percent higher than the $12,200 value of 1984, (see Table 8).

SPECIFIC 1987 OUTLOOK ITEMS

AGRICULTURAL LAND

Farmland values are expected to continue to decline in 1987 to a value of about $295 per acre. This will represent approximately a 4 percent drop below the 1986 value of $303 per acre. The continued slide in farmland value is a result of the capitalized value of farmland being well below the market value. The latter is still overvalued and market forces are pressuring market values to fall to re-establish a market equilibrium with net earnings of farmland. Figure 1 shows the value per acre of farmland and buildings for Manitoba.

The land market is expected to be characterized by relatively high real interest rates in 1987 which in combination with depressed farm earnings will tend to push down the actual bid prices of transactions and hold off potential sellers from the market.

Rental rates of land in 1987 are also forecast to decline and the amount of land rented relative to the available pool for rent will increase as a result of the factors mentioned above.

FARM CREDIT

The demand for loans is expected to decline in 1987 as the farm income situation worsens. Capital investment will be reduced and low land prices will cause a reduction in total asset value. Figures 2 and 3 show the expected patterns of behaviour for farm debt and farm capital.

Reduced farm incomes mean that cash flow problems will continue, reducing income available for debt servicing and affecting value of assets. The possible rise in interest rates and other input price rises will reduce income margins further exacerbating the farm credit situation. The level of farm bankruptcies will continue to increase, reflecting the poor financial health of the farm sector.

The Canadian interest rate reflects the interest rate policy of the United States. Interest rates are expected to remain relatively high in real terms with the prime around 10.45 percent. Variations in this rate will depend on the monetary policy of the Central Bank vis-a-vis the value of the Canadian dollar with respect to the U.S. dollar.

FARM MACHINERY

Investments in farm machinery are expected to be less in 1987 than in 1986. The value of sales is expected to fall by about 12-14 percent, a direct result of projected declines in grain prices. Machinery prices are expected to rise about 2 percent reflecting the replacement costs and foreign currency strengths of relevant currencies such as the Japanese Yen and German Mark. Machinery parts are expected to get more expensive in 1987 causing an increase in the cost of machinery repairs.

FERTILIZER

For crop year 1986-87, fertilizer consumption is expected to decline by about 2 percent relative to 1985-86. Fertilizer prices are also expected to fall 2 percent. Fertilizer costs will represent approximately 12.6 percent of all farm expenses in Manitoba in 1987 compared to 12.7 percent in 1986.

Fertilizer use increased from 1976-77 to 1984-85 except in 1982-83 when it dropped 3 percent. In 1985-86, the amount used dropped by 12 percent below 1984-85. In 1987, prices are expected to decline by 2 percent. Farmers will, therefore, benefit from internationally depressed prices. It is forecast that fertilizer rates of application will stay at current levels.

CHEMICALS

Pressures to reduce production costs will continue to influence the use of chemicals in 1987. Although an anticipated 2 percent reduction in seeded area is forecast, pesticide use will stay at about the 1986 level.

Expected good moisture regime for spring seeding and anticipated government supports will promote the use of chemicals. Normal weather conditions will likely encourage an increase in the utilization of chemicals offsetting the effect of reduced seeded area.

ENERGY AND UTILITIES

The recent decision by OPEC to reduce production of petroleum and the establishment of a price increase for crude will generate increased costs for all energy-based farm inputs in 1987. Moreover, requests for rate increases by utility companies will be transferred to farmers' costs. Thus, cost increases are forecast for such items as insurance, electricity and telephone.

Government fuel rebates will help farmers to reduce 1987 costs which begin with increased retail petroleum prices as the federal tax rebate program is adjusted for new petroleum tax rates.

Overall, farm energy costs are expected to increase by 3 percent above 1986.

For more information on farm income, please contact:
Errol T. Lewis, Sr. Statistician, PH: (204) 945-3501.

TABLE 1: MANITOBA FARM CASH RECEIPTS, 1985-1987

	1985	1986	1987	86/85	87/86
	- - - - - -	- - $000 - -	- - - - - -	%	%
Wheat[1]	516,259	545,546		106	
Oats[1]	7,807	8,629		111	
Barley[1]	152,677	140,382		92	
Miscellaneous Payments[2]	159,557	232,147		145	
Rye	10,806	6,859		63	
Flaxseed	122,505	81,228		66	
Canola (Rapeseed)	141,770	133,540		94	
Corn	18,247	8,062		44	
Sugar Beets	7,673	8,229		107	
Potatoes	35,843	37,948		106	
Vegetables	12,065	12,909		107	
Other Crops[3]	61,148	59,166		97	
TOTAL CROPS	**1,246,357**	**1,274,645**	**1,005,092**	**102**	**79**
Cattle and Calves	300,737	295,213		98	
Hogs	194,512	241,300		124	
Sheep and Lambs	2,084	2,049		98	
Dairy Products	102,370	104,294		102	
Poultry	48,828	47,666		98	
Eggs	48,354	47,088		97	
Honey	8,791	10,447		119	
Other Livestock[4]	8,994	9,371		104	
TOTAL LIVESTOCK	**714,670**	**757,428**	**785,000**	**106**	**104**
Other Cash Receipts[5]	36,886	26,550	169,055	72	637
TOTAL CASH RECEIPTS	**1,997,913**	**2,058,623**	**1,959,147**	**103**	**95**

1 Includes payments to producers by the Canadian Wheat Board.

2 Includes cash advances on farm-stored grains, deferred grain receipts, payments under the Western Grain Stabilization Act to producers in Western Canada and crop insurance payments.

3 Includes cash receipts from floriculture and nursery, mustard, sunflower, nongrain advances, clover and grass seed, hay and clover, dry beans, dry peas and miscellaneous crops.

4 Includes wool, fur and miscellaneous livestock.

5 Includes receipts from the sale of forest products, as well as dairy supplementary payments, deficiency payments, provincial income stabilization payments and other supplementary payments made by the federal and provincial governments.

TABLE 2: CONTRIBUTION TO TOTAL CROP FARM RECEIPTS, 1981 - 1987

	1981	1982	1983	1984	1985	1986	1987
	percentage						
Wheat*	47.3	50.1	51.6	50.2	41.4	42.8	36.0
Oats*	0.7	0.7	0.7	0.7	0.6	0.7	0.5
Barley*	14.8	15.7	14.2	10.9	12.3	11.0	9.1
Rye	1.6	1.5	1.6	1.2	0.9	0.5	0.5
Flax	7.4	6.6	9.6	7.9	9.8	6.4	7.5
Canola	7.5	9.7	10.7	11.3	11.4	10.5	10.3
Total Supports**	3.8	2.3	0.0	5.0	12.8	18.2	23.2
Others***	16.9	13.4	11.6	12.8	10.8	9.9	12.9
	100%	100%	100%	100%	100%	100%	100%

* Includes C.W.B. payments.

** Includes cash advances on farm-stored grains, deferred grain receipts, payments under the Western Grain Stabilization Act to producers in Western Canada and crop insurance payments.

*** Includes cash receipts from floriculture and nursery, mustard, sunflower, nongrain advances, clover and grass seed, hay and clover, dry beans, dry peas and miscellaneous crops.

TABLE 3: CONTRIBUTION TO TOTAL LIVESTOCK FARM RECEIPTS, 1981 - 1987

	1981	1982	1983	1984	1985	1986	1987
	percentage						
Cattle	41.5	39.0	37.2	36.5	38.6	35.7	35.6
Hogs	22.9	25.7	25.3	27.2	27.2	31.8	32.8
Dairy	14.3	14.5	15.9	15.4	14.3	13.8	13.5
Poultry & Eggs	14.2	13.1	14.2	14.1	13.6	12.5	12.0
Calves	3.9	4.5	4.2	4.0	3.5	3.3	3.3
Others*	3.0	3.0	3.0	2.6	2.5	2.6	2.5
Sheep & Lambs	0.2	0.2	0.2	0.2	0.3	0.3	0.3
	100%	100%	100%	100%	100%	100%	100%

* Includes wool, fur, honey and miscellaneous livestock.

TABLE 4: CONTRIBUTION TO TOTAL FARM RECEIPTS, 1981 - 1987

	1981	1982	1983	1984	1985	1986	1987
	percentage						
Crops	60.4	60.0	63.4	63.0	62.4	61.9	51.3
Livestock	36.6	38.8	34.7	35.0	35.8	36.8	40.1
Others*	3.0	1.2	1.9	2.0	1.8	1.3	8.6
	100%	100%	100%	100%	100%	100%	100%

* Includes receipts from the sale of forest products, as well as dairy supplementary payments, deficiency payments, provincial income stabilization payments and other supplementary payments made by the federal and provincial governments.

TABLE 5: MANITOBA FARM EXPENDITURES, 1985-1987

	1985	1986	1987	86/85	87/86
	- - - - - - - $000 - - - - - -			%	%
Taxes[1]	36,616	37,824		103	
Gross Farm Rent	97,819	93,939		96	
Wages to Farm Labour	84,053	87,746		104	
Interest on Debt[2]	160,585	162,295		101	
Total Machinery Expenses[3]	290,069	282,385		97	
Fertilizer & Lime[4]	218,748	204,529		93	
Other Crop Expenses[5]	169,130	162,004		96	
Feed[6]	127,596	110,371		86	
Other Livestock Expenses[7]	19,963	20,999		105	
Repairs to Buildings	23,632	25,523		108	
Electricity & Telephone	33,192	33,799		102	
Miscellaneous[8]	123,583	124,752		101	
TOTAL OPERATING EXPENSES	**1,384,986**	**1,346,166**	**1,342,939**	**97**	**100**
Depreciation					
Buildings	17,617	16,561	15,553	94	94
Machinery	244,020	253,748	256,469	104	101
TOTAL OPERATING & DEPRECIATION EXPENSES	**1,646,623**	**1,616,475**	**1,614,961**	**98**	**100**

1 Owned land and buildings only.

2 Interest payments on outstanding farm mortgage debts for owned land and buildings, together with interest payments on all other farm business debts, adjusted for interest rebates.

3 Includes the farm business' use of fuel and machinery repairs.

4 Net of fertilizer and lime rebates.

5 Includes pesticide, seed, irrigation, twine and container purchases, adjusted for pesticide rebates.

6 Includes purchases through commercial channels only, adjusted for feed rebates.

7 Includes livestock purchases, artificial insemination charges, purebred livestock registration fees and veterinary expenses.

8 Includes fencing, custom work, heating fuel, stabilization levies, insurance premiums and other services not previously specified.

TABLE 6: MANITOBA FARM INCOME SUMMARY, 1985-1987

	1985	1986	1987	1986/85	1987/86
	- - millions of dollars - -			- - - - % - - - -	
Realized Gross Income	2,015	2,076	1,977	103	95
Farm Expenses	1,647	1,616	1,615	98	100
Realized Net Income	368	460	362	125	79
Inventory Change	294	-63	-	-	-
TOTAL NET INCOME	**662**	**397**	-	-	-

TABLE 7: INPUT COST CONTRIBUTIONS TO TOTAL FARM EXPENSES, 1981 - 1987

	1981	1982	1983	1984	1985	1986	1987
				percentage			
Machinery - fuel, repairs & other costs	17.0	17.9	18.7	18.0	17.6	17.5	18.4
Interest	14.5	12.5	10.6	10.3	9.7	10.0	9.4
Machinery Depreciation	15.6	16.4	16.7	16.0	14.8	15.7	15.9
Fertilizer	11.2	11.1	12.2	13.1	13.3	12.7	12.6
Feed & Other Livestock*	10.4	9.7	9.1	9.8	9.0	8.1	7.3
Other Crop Expenses**	8.6	9.0	9.6	10.3	10.3	10.0	10.1
Taxes & Rent	7.1	7.9	7.9	8.0	8.2	8.2	8.4
Wages	4.4	4.8	4.4	4.7	5.1	5.4	5.7
Miscellaneous - insurance, heat, fuel, stabilization, custom work, fencing, etc.	8.1	7.7	8.1	7.2	9.5	9.8	9.6
Building Repairs & Depreciation	3.1	3.0	2.7	2.6	2.5	2.6	2.6
	100%	100%	100%	100%	100%	100%	100%

* Includes feeder cattle purchases, breed association fees, A.I. and veterinary expenses.
** Includes pesticide, seed, irrigation, twine and container purchases and adjustment for pesticide rebates.

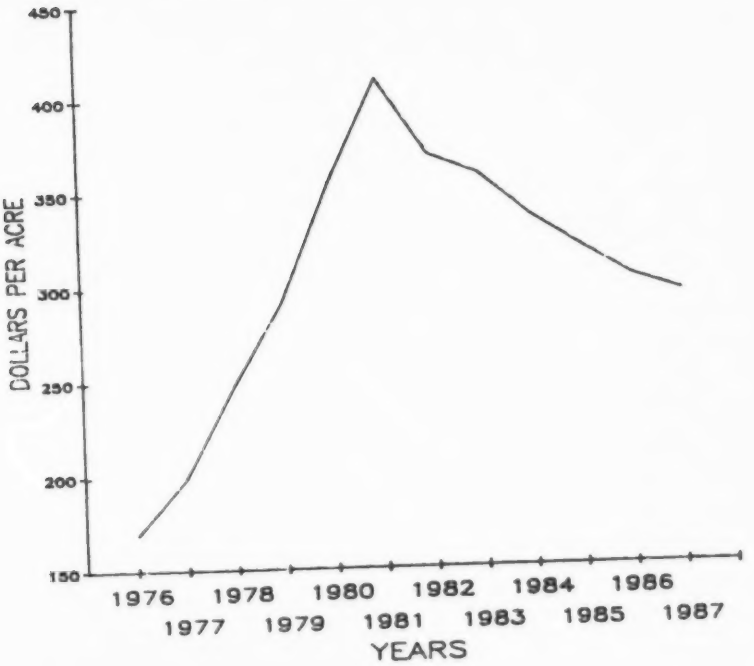
TABLE 8: SENSITIVITY TABLE

	Number of Farms	Capital Value Per Farm	Outstanding Debt Per Farm	Realized Net Income / Realized Gross Income	Expenses / Realized Gross Income	Average Realized Net Income Per Farm
		- - - - $000 - - - - -		- - - - % - - - -		$
1981	29,442	355.36	52.27	13.7	86.3	7,817
1982	29,300	333.16	56.94	12.8	87.2	7,515
1983	29,000	332.48	60.78	13.9	86.1	8,579
1984	29,000	319.00	62.85	18.0	82.0	12,200
1985	28,700*	305.72	65.86	18.3	81.7	12,826
1986	28,700*	292.88*	68.20*	22.2	77.8	16,028
1987	28,700*	292.48*	70.08*	18.3	81.7	12,613

* Estimated values only.

FIGURE 1

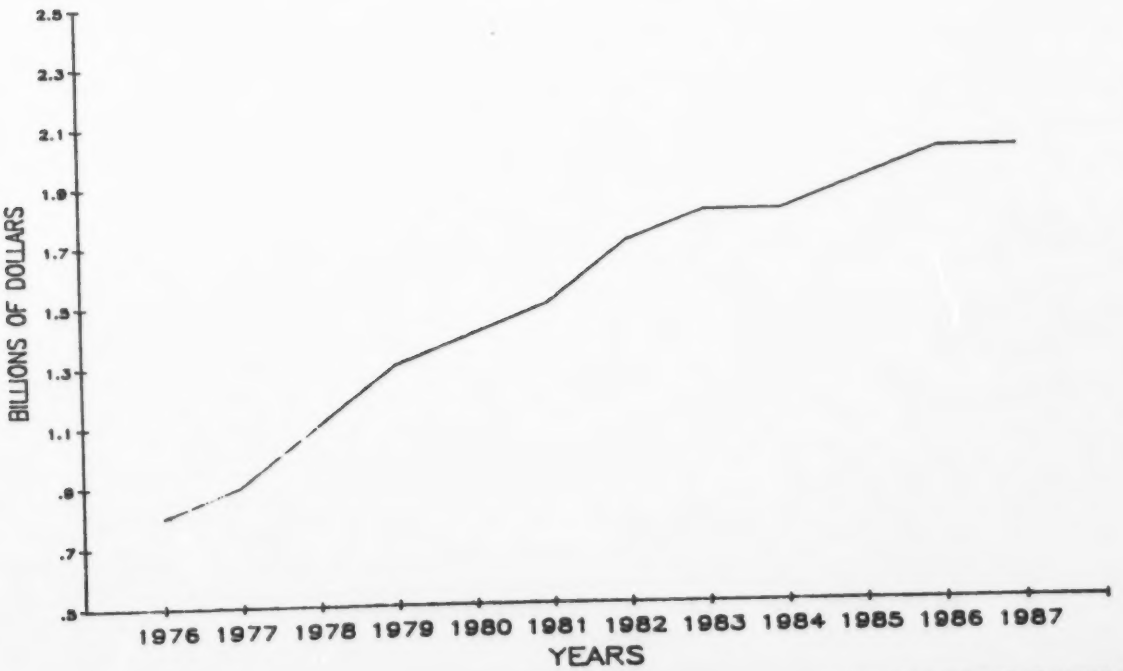
VALUE PER ACRE OF FARMLAND AND BUILDINGS MANITOBA, 1976-1987



SOURCE:STATISTICS CANADA.

FIGURE 2

OUTSTANDING AGRICULTURAL DEBT IN MANITOBA, 1976-1987



SOURCE:STATISTICS CANADA.

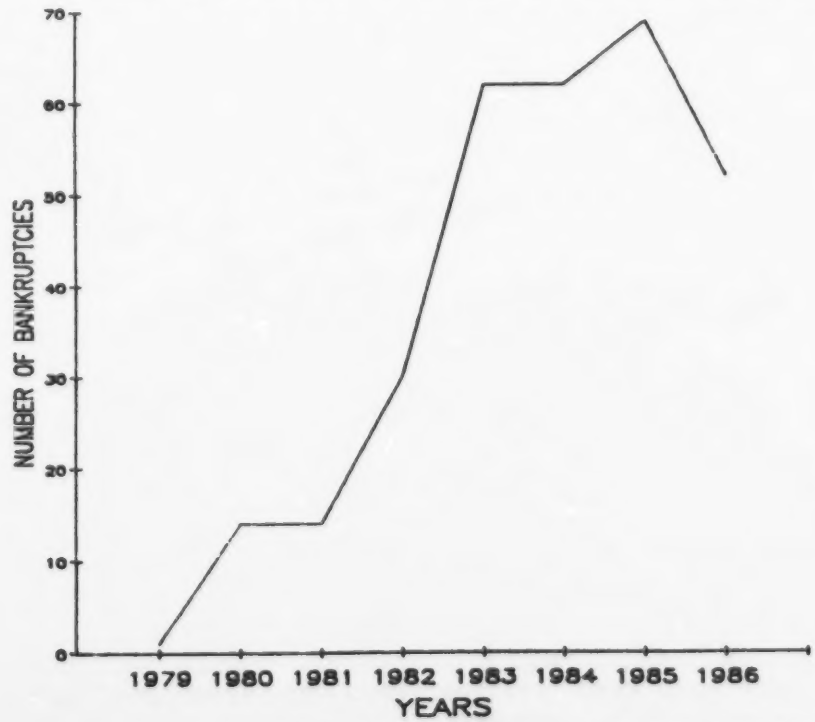
FIGURE 3

VALUE OF FARM CAPITAL, MANITOBA 1976-1987

SOURCE:STATISTICS CANADA.

FIGURE 4

FARM BANKRUPTCIES MANITOBA, 1979-1986



SOURCE:BANKRUPTCY BRANCH, FEDERAL CONSUMER AND CORPORATE AFFAIRS.

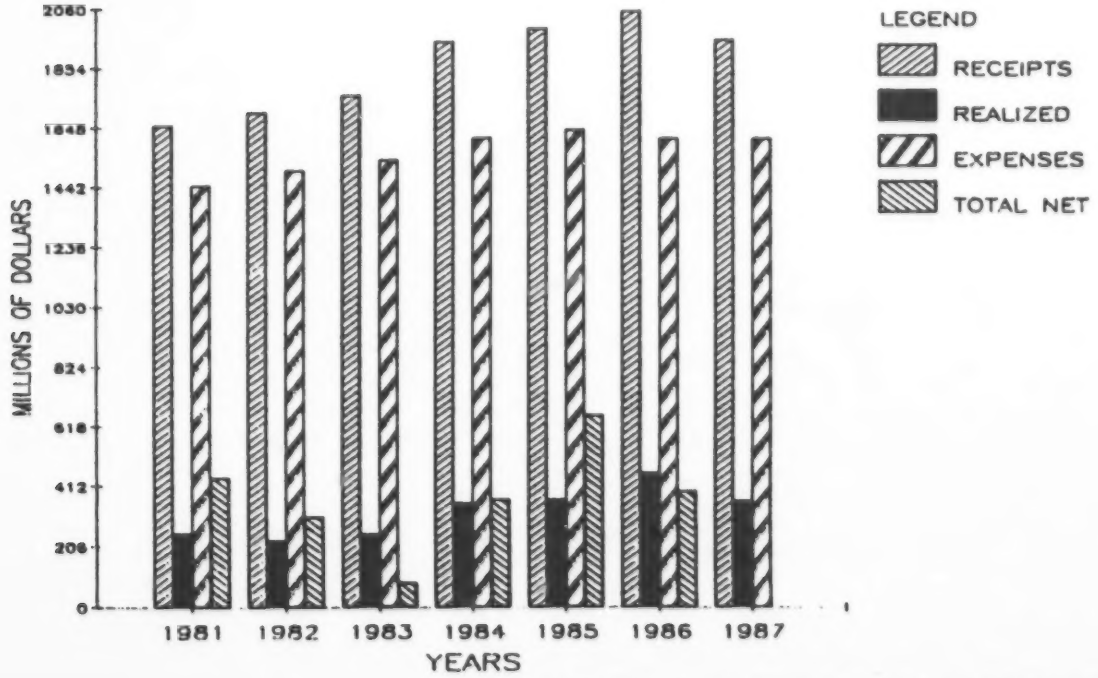
FIGURE 5

FERTILIZER SALES, MANITOBA, 1976-1987

SOURCE: WESTERN CANADA FERTILIZER ASSOCIATION.

FIGURE 6

MANITOBA FARM INCOME SUMMARY 1981-1987*



SOURCE: STATISTICS CANADA & AGRICULTURE CANADA.

* TOTAL NET not shown for 1987.